TO: The Financial Accounting Standards Board
FROM: Erin Nash, Providence College Student
DATE: December 10, 2002

SUBJECT: Response to principles-based approach to U. S. standard setting.

I am an accounting major at Providence College and as part of my intermediate final exam, I was asked to review and respond to the possibility of adopting the principles-based approach. From my studies this semester, which involved examining the conceptual framework for financial accounting, I strongly support the Board’s proposal for a principles-based approach to United States standard setting. Furthermore, due to the recent corporate scandals, it is evident that a new approach is needed to prevent reoccurrences of such debacles.

Presently, the International Accounting Standards Board (IAS) uses a method similar to the principles-based approach. Since many companies in the United States have offices located throughout the world and operate internationally, they may be able to better understand and compare the financial statements of other countries by accepting the principles-based approach. If the United States implements this broader approach, just as many international countries have done, perhaps one day there will be one common accounting method throughout the world.

Within the existing rules-based approach, the ideas and standards are detailed and complex which makes it difficult at times for investors and shareholders to evaluate a company’s financial statement. One of the objectives of financial reporting is to provide information that is useful to those who are making investment and credit decisions. This goal cannot be achieved unless these decision makers possess a certain level of understandability. By implementing the principle-based approach, these complications will be replaced with standards that are less detailed and specific, and therefore the financial statements will be more transparent for the public.

Furthermore, under the principle-based approach, the standards would be applied more broadly. Consequently, there will be fewer exceptions for which transactions can be accounted for differently and it will be more difficult for companies to mask fraudulent activities. Additionally, because there are less exceptions, the comparability
level will be increased, enabling users to identify the real similarities and differences between enterprises. Since the principle-based approach is less meticulous, the standards will respond quicker and more accurately to those economic issues which surface.

In closing, the principles-based approach would greatly help to improve the quality and transparency of the United States financial accounting and reporting. This approach would not only decrease the amount of details, but also provide companies and investors a clear method to compare different entities. I would greatly appreciate a follow-up after the round table discussion on December 16, 2002. I can be reached at enash04@providence.edu.