My name is Patrick O'Keefe, a Providence College Junior Accounting Major. I have recently read your proposal on a change to principle-based accounting and I do not believe it is a good idea.

Under the proposed approach it is said that the principles would apply more broadly than under existing standards, thereby providing few, if any, exceptions to the principles. This basically says that there will still be rules to principle based accounting which would not change the conceptual framework much, which is at the center of this debate. Another disparity is less interpretive and implementation guidance for applying the standards. This difference calls for a great deal of trust from those who prepare financial statements. This is scary when you consider what has to be looked at the closest in this proposal, the good percentage of people who do not have an accounting background, but have a lasting impression on the economy:

Investors

It is understandable that a principles-based approach be sought after due to the lack of quality regarding transparency and comparability in financial statements. However, what happens when companies use the percentage of completion method when recording revenue. With a larger emphasis on a prudent man standard, where will be the comparability if companies start to record these differently? The same can be said when employing the matching principle as well. A principle-based system of standards looks to a “timeless” body of accounting concepts for guidance, so discretion can be used as to when to match expenses and revenues, with rules that some call “fences” guarding them, so that manipulation will not occur. Once again, investors, who do not quite grasp what this means, will be frightened by this seemingly lack of regulation.

The principle-based approach will also lead to better comparison to foreign companies because it would be closer to the International Accounting Standards Board’s procedures.
It is a solid concept, which would lead to better understanding of overseas financial statements, but that is not what the investor is worried about. The investor is more concerned with stopping corruption within our own country’s accounting standards.

Another issue facing a change to principle-based accounting is the adjustment that needs to be made by CPA’s, auditors, the SEC, and creditors. With less interpretive and implementation guidance how will people who have been doing it one way their entire life be able to amend to the rules. It is not an easy thing to ask these people to achieve. Therefore, interpretive guidance must still exist.

Taking all of this into consideration, principle-based accounting is not an unfeasible task and may be a better approach to accounting, but not in this day and age. It comes off as being too lax, which will not go over well with investors. In an effort to make financial statements more comparable and easier to understand you might turn off a large number of people who are looking for heavy regulation to protect their money, not transparency to make their money look good.