My name is Katie D’Alessandro, and I am a student in Intermediate Accounting at Providence College. I am writing to address the issue of a principles-based approach to U.S. accounting standard setting.

Throughout the current semester, discussions of the business world have been an integral part of our accounting education. We regularly bring in articles from the Wall Street Journal to further expand our knowledge and, within many of those articles, we have come across discussions of FASB issues, including the examination of the accounting standards. Many of us also attended a lecture by Harvey Pitt at Brown University and learned of his views on the topic of standard setting. When asked if there will be an attempt to move away from detailed and complex accounting provisions, Mr. Pitt summed it up simply, “Yes.” He went on to say that “we” want a system where people can understand the concept and have guidance to help them. From what I have ascertained over this past semester, I believe that FASB should adopt a principles-based accounting approach to standard setting.

It is said that a principles-based approach will improve the transparency and understandability of the standards, which will leave little wiggle room for even the most hardened white-collar criminal to claim a misunderstanding when the Feds come knocking. Furthermore, due to increased simplicity, principles-based standard setting would vastly improve enforcement efforts and would virtually eliminate the excuse that “I didn’t know what the standard really meant.”

Another fact to be considered is the many exceptions and loopholes in the current accounting standards. These exceptions not only can lead but also encourage intelligent people to find the loopholes and deliberately circumvent the intention of the standards. As quoted in the Wall Street Journal in an article dated December 2, 2002, the author writes, “Clearly the rules-based system has not worked well recently. The corporate landscape is littered with ‘legal’
malfeasance. Much of the financial reporting shenanigans uncovered to date fell within the established rules, even if the rules were pushed against.” For example, in the Enron case, they were able to omit substantial liabilities from the balance sheet while still staying within the parameters of the rules.

Still being relatively new to the accounting profession, I am unsure of the effect that instituting these new standards would have on people currently using the existing standards. Some accountants today prefer the rules-based standard because they can hide behind the rules and not face any liability. However, in the long run, I think they would benefit from principles-based because it allows them to use their own judgment “to determine if various financial reporting tactics are kosher or not,” whereas now they are held back by the rules. By relying so intensely on rules, rather than principles, a Wall Street Journal reader says, “CPAs abdicated their responsibility to use their professional judgment.”

Whether the principles-based standards are adopted or not, something needs to be changed in regards to clarity. I believe that more transparent standards would help ease the anxiety of the newcomers to the accounting field. One could make the argument that standards so broad and complex not only are intimidating, but that they also tend to cover up reality rather than explain it. The more comprehensible standards are, the greater inclination a lower-ranked member of a corporation or the accounting profession would have to speak out against fallacies and wrongdoings.

Thank you for your time.
Katie D’Alessandro