My name is Julie Pitassi and I am a sophomore at Providence College in Providence, Rhode Island. I am majoring in Accounting and currently taking an Intermediate course in the subject. My professor has made it essential for us to stay current with those events in the business world. It is crucial for us to read the Wall Street Journal (WSJ) because class discussions often revolve around various FASB issues. Not only do I ensure that I stay abreast of current events by reading the WSJ; but, I actually had the opportunity to hear Harvey Pitt (former chief of the Securities and Exchange Commission) give a lecture a few weeks ago at Brown University about his views on different accounting issues. Mr. Pitt stated his views on adopting a principles-based approach to U.S. accounting standard setting similar to that used by the International Accounting Standards Board (IASB). I understand that the FASB has decided to explore this possibility, and although I think that it will be difficult for users of financial information to adjust to this new approach, I support their proposal and believe that a principles-based approach to U.S. accounting standard setting should, in fact, be adopted. This approach will improve the quality and transparency of U.S. financial accounting and reporting.

Clearly, the rules-based system has not worked well recently. During the past year, a major Accounting firm, Enron, has been destroyed, and there have been far too many accounting fraud cases to count. It is obvious that something needs to be done and I feel as though implementing a principles-based approach would be a great change. Much of the financial reporting shenanigans that have been uncovered thus far fell within these conventional rules. By relying so intensely on these rules, CPAs renounced their responsibility to use their professional opinion. Companies found ambiguity in the rules and saw that they were easy to hide behind. An example of
this is excluding significant liabilities from the balance sheet but still remaining faithful to the rules...it has been done, far too many times. If the FASB adopts this new approach, strategies such as this will be eliminated. People will no longer be able to give the excuse that they were unsure of what the principle meant. Individuals in the accounting field would have to use their own judgment to decide whether or not their financial reporting strategies are acceptable.

It is my understanding that the principles would apply more broadly than under existing standards, thereby providing few, if any, exceptions to the principles and there would be less interpretive and implementation guidance for applying the standards. This would increase the need for professional judgment and I feel as though this is what the accounting profession needs.

The IASB has promulgated a principals-based system, and to date, Europe has been relatively free of the corporate scandals that have roiled the U.S. markets... Doesn't this tell us something?