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Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 1125-001

Re: Proposal on Principles-based approach to U.S. standard Setting

Dear Ms. Bielstein:

Golden West Financial Corporation has long been a proponent of clear, consistent, reliable, and conservative financial reporting. We believe that analyst and investor confidence in our capital markets is dependent upon establishing confidence in the accuracy of the financial information provided by corporate America. While we favor improvements to our process of developing GAAP and endorse greater clarity in the financial standards established by the Financial Accounting Standards Board, we do not believe that limiting exceptions and reducing interpretive guidance will improve the quality and transparency of U.S. financial accounting and reporting.

To the contrary, we are concerned that a movement toward a principles-only based approach to accounting rule making will significantly reduce comparability in reported financial results between companies and open a Pandora's box of financial game playing as individual companies and CPA firms provide their own spin on compliance with GAAP principles. Absent clear accounting principles combined with specific interpretive rules, accounting and financial practice may migrate to the most liberal of revenue interpretations. This was clearly illustrated in the Real Estate industry accounting practices prior to the implementation of SFAS No. 66.

Our comments on this and other issues raised on the FASB's invitation to comment are discussed in our detailed responses that follow:

DETAILED COMMENTS ON FASB ISSUES:

1. **“Do you support the Board’s proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?”**

The focus of the Board’s proposal is a “one-size-fits-all” approach to accounting rule making. By limiting exceptions and reducing interpretive guidance, the Board hopes to make the accounting rules clearer and less complicated while at the same time improving the quality and transparency of U.S. financial accounting and reporting. We do not agree that the goals of brevity and less complexity in rule guidance will achieve improved quality and transparency of financial accounting and reporting.

On the contrary, if the FASB, SEC and EITF do not provide adequate interpretive guidance in the accounting rule making process, then the interpretive process will be left to the national and local CPAs,

corporate accountants, and “accounting experts” testifying in the judicial system when companies fail. A hundred or a thousand interpretations of an accounting rule from multiple sources are not better than one generated by the FASB. We do not believe that the FASB, the IASB or any other accounting body is capable of writing the “ten commandments” of accounting principles so clear and unequivocal that all applications can be consistently interpreted by all accounting professionals. We cannot escape the reality of a complex accounting world by avoiding exceptions and eliminating official interpretations.

FASB Statements No. 133/137/138 (the principal target of all anti-complexity comments) are complex not because of any desire by the FASB to write volumes on the topic of derivatives but because of the innate complexity of the spectrum of derivative instruments. A shorter FASB Statement or the elimination of the Q&A would leave interpretation of the Statement to the field of accounting professionals at large, only adding to the complexity and confusion of derivative accounting.

The elimination of exceptions in favor of a single macro approach to accounting principles will not make the accounting and reporting clearer. Quite the contrary, it will confuse the accounting and reporting results even more by treating different situations and fact patterns with a single solution. If the medical profession were to follow this approach, all ailments of the leg might be treated with amputation – clear, consistent and transparent but not the best solution for all fact patterns. One approach or one solution does not fit all.

Clarity, consistency and reliability of financial reporting are essential to the rational operation of our capital markets and the commercial banking system. Movement of accounting rule making towards a principles-only approach will weaken the clarity, consistency and reliability of financial reporting, not strengthen it. As a consequence of individual companies and CPA firms providing their own spin on compliance with GAAP principles, the comparability between companies will diverge. The opportunities for financial game playing with reported results will be significantly increased.

Also the U.S. litigation environment is not yet ready to support a principles-based approach to accounting rule making, dependent upon the exercise of differing professional judgments. The FASB itself cannot even agree one hundred percent on its own accounting principles. In fact, it has had to reduce the required number of votes to pass a new opinion statement from 5 to 4 out of 7 (a bare majority) in order to expedite issuance of the new rules. Most opinion statements pass with split votes and dissenting “professional judgments”. With a principles-based approach to accounting rule making, every significant downturn in a company’s profitability could cause legal firms to trot out their favorite accounting experts to second guess and attack in court the “professional judgment” of the company’s accounting officers and external CPAs.

It is our litigious environment that has pushed CPA’s and corporate accountants to seek authoritative guidance on the interpretation of accounting principles so that their professional judgments will not be second-guessed in court or by the SEC reviewers. Whether we like it or not, litigation has become a significant influence on the documentation and practice of public accounting in the modern accounting era.

The evolution of official accounting principles and rules over the past three decades has been heavily focused and shaped by response to accounting abuses. In the case of lending institutions, FASB Statement No. 91 was written to standardize the accounting and curb abuses in the recognition of loan fee income. In the case of real estate sales, FASB Statement No. 66 was similarly written to standardize the recognition of real estate revenue recognition and to curb abuses and inconsistencies in the accounting practices for real estate sales. Such official statements written as principles-based documents would not have solved the problems of accounting abuses they were written to address. Without detailed discussions of what direct

loan origination costs could be deferred under FASB Statement No. 91, there would not have been consistency of application. Without detailed discussions and rules of specific down payment requirements for real estate revenue recognition, FASB Statement No. 66 would not have achieved consistency and reliability of real estate sales revenue recognition.

In the current Proposal, the Board quotes from the dissents to the issuance of FASB Statement No. 66 in which “Mr. Walters takes exception to the Board developing complex, rigid and detailed rules in the accounting standards.” He believed that “to do so debases accounting standards and inevitably will diminish the stature and effectiveness of the accounting profession, whose strength and purpose arise from applying broad accounting and reporting objectives and standards to specific circumstances with professional judgment and objectivity”.

We believe these words are a minority opinion out of touch with reality. Though we may all wish to operate at a broad principles only level, we cannot turn back the hands of time to transport accounting rule making back to a kinder, simpler, less litigious era, any more than we can return the legal system back to the days of just the Constitution and a very few state and local laws. We believe that the FASB must get their hands dirty writing specific accounting rules and interpretations in addition to broad general principles. Their current approach will not debase the nature of the accounting profession nor diminish its effectiveness but in contrast, will strengthen its ability to stand and endure in an evolving and complex business world.

2. “Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair view override?”

The body of existing GAAP could benefit from an overall reporting framework as in IAS 1. Adding IAS 1 to the FASB standards would also be consistent with the Boards goal of achieving convergence with IASB accounting and reporting standards.

The prominent mega-failures of Enron, World Com. and others recently have focused rule makers’ attention on the need for a “true and fair view override” provision in any overall reporting framework. Whether the accounting rules are complex with interpretations or principles-based only, there will always be a need for the preparers of financial statements to assess whether their financial statements reflect the economic substance of the activity conducted. We concur with the suggestion that a “true and fair view override” should be included in the overall reporting framework.

The recent distortions of financial reporting by several major corporations also bring to focus the need to add the requirement of a bias towards “conservatism” to any list of overall considerations for financial statements such as IAS 1. Estimates employed should be conservative in their calculation. Revenue recognition should be conservative and asset values recognized should also be conservative. The “true and fair view override” should lean on the conservative side.

3. “Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing the guidance?”

The Board should be the primary standard setter and, as such, should be responsible for providing the interpretive and implementation guidance.

Interpretive and implementation questions from responsible parties, including the SEC, AICPA members, and corporate accounting officers, should be addressed by the FASB staff, official task groups and the EITF for development of appropriate guidance and approved by a majority of the FASB Board members. Interpretative guidance should continue to be provided whenever needed as in the past, but under a more focused control by the FASB as recently proposed in the speech by FASB chairman Robert H. Herz's to the FEIC Financial Reporting Issues Conference in New York on November 4, 2002.

4. **“Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?”**

As discussed in the response to question (1), clarity, consistency and reliability of financial reporting will not be enhanced by adoption of a principles-only based approach to U.S. standard setting. Such an approach will lead to individual interpretation of principles compliance by companies and CPAs, which will, in turn, destroy comparability of operating results between companies even in the same industry. Financial analysts will need even more information on the accounting interpretations practiced by each company in order to attempt to evaluate individual company operating results.

We also do not believe that the current litigation environment is conducive to the proposed principles-based approach to U.S. standard setting. Items left unclarified by FASB with the expectation that “professional judgment” can be exercised to apply the principles to differing specific fact patterns will become sources of inconsistency and confusion. They will precipitate litigation where companies have experienced operational and financial difficulty.

A combination of both well-reasoned principles and thoughtful interpretative guidance are needed in today's accounting world to insure reliable, consistent financial reporting. The FASB, as the primary body formulating U.S. GAAP, should make sure it is adequately staffed and organized to continue its lead in developing both principles and interpretative guidance for the financial reporting world.

5. **“What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?”**

The major benefit of adopting a principles-based approach to U.S. standard setting is the simplification of the standard setting process for the FASB. Also, the principles-based approach to U.S. standards makes convergence with IAS standards easier to reconcile and achieve. However, outweighing these benefits is the cost for U.S. corporations to research and document justifications for the many variations from published rules based upon “professional judgment”. Added to this cost will be the judgments rendered in legal disputes over the interpretation of accounting principles. These costs cannot be anticipated and quantified in any sort of rational cost/benefit analysis.

6. **“What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?”**

If the Board were to move to a principles-based approach, which we do not advocate, it would need to develop an elaborate plan to transition and potentially rewrite all of the existing accounting literature in the new principles-based approach. Additionally, all of the many interpretations and exceptions to FASB principles now encased in current published GAAP would need to be undone in the literature and in the

financial reporting of U.S. corporations. The major financial impact of such restatements cannot be anticipated, but it could be enormous.

In conclusion, we wish to reiterate our position that less is not necessarily better when it comes to accounting principles and rules. One solution does not fit all fact patterns. A principles-based solution does not eliminate the complexity of the applications nor the need for interpretation. The issue is who should exercise the interpretive decisions of professional judgment. The interpretation of accounting principles should not be left to the corporate accountants at the Enrons and World Coms of the world or to the CPAs firms such as Arthur Anderson. The FASB has an important role to play in the independent formulation of accounting principles and in their interpretation for differing applications and fact patterns. Working with the SEC, the EITF and with the aid of task groups, the Board can continue to improve the accounting principles without abandoning the necessary practice of specific exceptions and interpretations to those accounting principles. Although our system of accounting rule making is not perfect, it is still better than the next best alternative.

We will be happy to discuss any of our comments with you in greater detail. Please contact us if you wish to do so.

Sincerely,

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