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To Whom It May Concern:

I am writing in response to the proposal for a principle-based approach to U.S. standard setting. My comments are based from a limited background in the application of accounting principles, but rather from a student's perspective. I am a graduate student in the Masters of Accountancy degree program at the University of Idaho. We have been discussing many pertinent issues of accounting theory throughout this past semester, many of which will be the basis for my comments to the issues presented within the proposal. I will first discuss each issue presented in the proposal and further, state the basis for forming my opinion to the related issue.

As the environment in which be study and practice has been under heavy review related to recent events, it is critical to make sure that changes would be beneficial to all who they will affect, namely, the entire U.S. financial accounting and reporting environment, as well as those who are inadvertently affected by these proposed changes. I would support this proposal, but feel obligated to state, that this proposal is based on an objective understanding and relies heavily upon the individual for judgment, for which we are held responsible as auditors. The environment in which this proposal signals would be subjective rather than objective, which would lead to further interpretation, and could possibly even lead to further problems rather than solve existing ones. I do, however, feel that by moving towards a principles-based approach would lend to more transparency in the financial statements. It would accomplish this by eliminating ways around pronouncements which have, in the past, enabled companies as well as auditors with the flexibility to manipulate circumstances in order to promote a false or tainted representation. There first needs to be an assurance that the environment in which participants would be willing to use professional judgment in interpretation and implementation of the standards exists and that it will be effective and efficient in its oversight and enforcement. Those who are involved need to be committed to ensuring ethical standards of judgments. How else can this be effective and efficient?

The interpretation and implementation guidance that is currently provided has been detrimental to efficiency of applying standards of accounting. What the letter of the law dictates, the spirit of the law may make void. Accountants are educated and trained to use their judgment, that is what is expected of us, we shouldn't have to rely on rules in the application of standards, that are usually so critical and difficult to follow, just so that those who are searching for ways around the standards will not be able to do so, for a time. When a standard is promulgated it is considered binding and limiting, rather than useful and representative of what the underlying facts truly are. The Board should provide guidance in interpretation and implementation of principles-based accounting standards. This would foster an environment of application of what is truly representative of the facts. Transparency within the reports should have underlying meaning that is evident by the method(s) used to represent those facts. Guidance should be merely that, guidance.

In order to prepare auditors, the SEC, investors, creditor, and other users of financial information, there needs to first be a recognition that the necessary environment for implementation really does exist. Oversight and enforcement bodies and analysts and other users need to understand and be willing to accept the consequences of practice. This is a very big issue; the liability could be enormous as has been seen by recent events. Professional judgment needs to be the primary focus. This needs to be emphasized in the profession. This emphasis must be prevalent in seminars, papers, journals, and overall instruction. Without having models to follow, divergence will occur, and currently the environment is lacking in this area.

There is also a need to develop a transition from the current status quo to the adoption of a principles-based approach. This transition could take place if the areas mentioned above focused on why this would help resolve the current problems faced in the industry. This plan needs to be 'sold' through analysis and application. In order for this to be acceptable, the environment needs to see the benefits of its application. I would agree that exceptions and other complexities are the root of the current problems, but is this truly the answer to uproot these problems?

The proposal also mentions a benefit cost analysis, which relates to why should or shouldn't this be applied. The benefits of this program heavily rely on it being generally

accepted. Its general acceptance relies on many participants, which makes its implementation very difficult if not impossible to achieve. The results would be favorable but the costs are higher than what the proposal suggests. I feel that the overall costs contain many different issues of acceptance than stated in the proposal. There may be underlying issues of standard setting bodies that would become prevalent from different interpretations, which would cause disagreement, and eventually lead back to the current system. The practitioners could very easily abuse this system of accounting because it is based so heavily on one's own professional judgment. There are many interpretations of every issue.

Overall, I feel that the adoption of a principles-based approach would be beneficial, but not practical. There are too many factors that come into play. Wide acceptance would be difficult if not impossible, those who favor the current system, those who look for the exceptions may have a large impact on whether or not this would be acceptable, it is obvious that they would discourage this approach because it would not serve their interests. There is another issue that is of great importance to this issue. The board could provide guidance, but will it be accepted, and/or manipulated by underlying forces who are seeking their own best interests? How can the Board ensure that other participants understand and are willing to accept the consequences of a principles-based approach? Will their communication of an acceptance be obvious or hidden, and how will that be interpreted? These are some of my questions, in regards to this proposal; hopefully you will take them into consideration when further analysis takes place at the upcoming roundtable. I am eager to learn more about what will take place in the near future, as most of us who are/will be affected by these changes, are.

Thank you,
Dave Dutson