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To: FASB

cc:

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Subject: FASB proposal for a principles-based approach to US standards setting

1. Do you support the Board's proposal for a principles-based approach to US standard setting? Will that approach improve the quality and transparency of US financial accounting and reporting?

I take exception to the question. As posed, the question is between two ostensibly mutually exclusive methods, i.e., the current method and a principles-based method. The clear inference is that under a principles-based method no implementation or other guidance can be provided, and still be a "principles-based" method. I do not accept this premise.

Our current problem is that the "guidance" provided by the FASB takes the form of detailed rules, and members of our profession have taken to treating those accounting rules more like tax rules, i.e., things to work around, rather than comply with in spirit. Guidance is fine and should continue in standards setting. Detailed rule writing that requires a law degree rather than an accounting degree to understand MUST stop.

One approach or the other is not what will improve the quality and transparency of US financial accounting and reporting. That will only come from people having the right attitude about the financial information telling the proper story.

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?

Yes, the Board should develop an overall reporting framework. Of course there should be a true and fair view override. We are not brain dead automatons. If following the rules leads to misleading financial information, the CPA should insist that the information be adjusted so that it is not misleading, and disclosure of the departure and the reasons for the departure.

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

It seems to me that "interpretive" guidance is required more and more for two reasons:
(1) the principles are not written in simple enough language and therefore interpretive language is required to explain what the words mean, and (2) to accommodate exceptions to the principle. Accordingly, if the principle is well written, there should be little need for interpretive guidance.

That said, examples may be useful to illustrate a point and words sometimes have multiple meanings, thus necessitating interpretation as to the intended meaning. But once again I make the point about thinking like a tax practitioner vs. an auditor, i.e., neither the principle, nor the interpretive language, is meant to be worked around by too literal a reading, or too convoluted a reading. The spirit of the principle should be observed regardless of whether or not a particular transaction is exactly as described in the guidance.

Implementation guidance is a different matter and should always be helpful particularly where there are transition period alternatives to consider.

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

One goal of US standards is comparability. Perhaps there has been too much rule making in an attempt to achieve this goal. Moreover, consider the amount of financial information available to users, and the users' ability to adjust that information as necessary to achieve comparability in the users' minds. Rather than prescribing how every transaction should be recorded, and how every asset and liability is to be presented, perhaps it would be better in some situations to simply require disclosure so the user can adjust as necessary to suit his/her purpose.

But, to answer the question directly, users will be able to adjust.

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

The principal benefit is intangible – greater confidence in financial information. It cannot be quantified just as the value of a priceless art object cannot be quantified. The financial information is trusted, or it is not.

The costs of rewriting the accounting literature fall into two categories – the costs to the promulgators, and the costs to the users. The costs to the promulgators will be significant as the entire body of literature will have to be reviewed and re-written as necessary. This

will in turn necessitate significant retraining costs for users. Another cost will be the increased communication needed between the issuer of financial information and the independent accountant. With more judgment coming into play, the independent accountant will have to be involved more contemporaneously to avoid the fluctuations that would result from an entity treating a transaction one way, only to find later on that the accountant has a different view.

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

The Board must recognize that no matter how tight it thinks the rules are written, from the moment the rule is published there are people working on how to get around it. The only principle that really matters is that the financial information tells the real story, true and fair view if you like. Independent accountants and corporate executives have to be held to this principle.