Comments on Proposal for Principles-Based

Approach to U.S. Standard Setting

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Dear Director of FASB,

This letter is a response to the invitation of comments on "Proposal for Principles-Based Approach to U.S. Standard Setting" (hereinafter Proposal). In the proposal disclosure, the FASB briefly presents the objectives, reasons, and the format of the new approach, and analyzes the potential cost-benefits. Basically, I agree with the FASB opinions, and I believe the proposal will motivate more persons who are concerning the accounting to contribute their wisdom.

Three issues, which are shortcomings of current approach to the standard setting, justifications of demand for principles-based approach, and development of reporting framework, will be discussed in this letter.

Shortcomings of Current Approach to the Standard Setting

- Try to give best standards. The current accounting system tries to give us what is best. However, there may be a lack of consensus on the best reporting system because accounting reporting has significant economic consequences to its constituencies. The selection among financial reporting systems can be viewed as an issue of social choice involving trade-off among constituencies. Standard-setting process, as a whole, actually reflects the compromise between interests of different individual groups, so there is no best standard. Targeting best standards leads to heavily focusing on details, and leads to more discrepancies and controversies among standards.
- Excessive documentation. The detailed-orientation of current standard setting leads to excessive documentation, and leads to the status under which there are few persons who have time to read and understand all materials. Consider the standards about lease; there are 15 statements and 23 interpretations; which may have 800 pages in total. There is not a living man who understands it all.
- Lead to undetected errors. Complicated regulations often lead to undetected
 errors among preparers and auditors of financial statements. This puts auditors,
 investors and accountants at risk. The current standards are far beyond simplicity
 for the sake of accuracy and consistency and for the sake of understandability.

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¹ See Attachment

No one is ready to have a theoretical pure dissertation on the accounting for certain transactions that only a handful of people can decipher and bookkeep.

- Does not facilitate harmonizing with IASB. The IASB has promulgated a
 principals-based system. If we move to broader, more principles-based accounting
 standards, such as those used in other parts of the world, would facilitate better
 reporting in the United States.
- Drive accounting teaching emphasis on particular standards. The current standard setting drives that the accounting teaching to focus heavily on particular standards rather than critical issues. The fundamental theory and critical issues that develop students' professional ethic and critical thinking are not addressed in the textbook. The accounting textbook looks more like the duplication of GAAP. It does not facilitate judgment or creative thinking ability. Students spend a lot of time remembering the details rather than the justifications or theories behind the standards. This wastes intellectual resources.

Justification of Demand for the Principles-Based Approach

Except for the shortcomings of the current approach, the reform needed is based on the following justifications.

• Provide more reliable and relevant information in time. It can be expected that the new approach will improve the quality and transparency of U.S financial accounting and reporting. Relevance and reliability are the primary qualities of decision-useful information. Since principles-based approach will focus on the major problems related to the quality of accounting information, the standard setting must be simplified. For example, the standards are much more simplified in the proposal attachments than those in original statement. This will make the standard more understandable and workable. Therefore, it is more possible for accountants to provide reliable and relevant information than before.

Some persons may concern about that a principles-based approach could reduce the comparability of financial information and leave too much room for judgment by companies and auditors. **First**, we should admit that the situation may happen; but given the premises of the new approach, the divergence can be minimized to the extent that the impacts on quality of information are not substantial. **Second**, compared with detailed accounting standards, the proposed standards under a principal-based approach are easier to use and less costly to implement. **Third**, a principles-based approach may greatly alleviate structuring transactions that meet the literal requirements of the rules -- but ignore the intent and spirit of the standards, it facilitate comparability of accounting information in substance rather in form. **Most importantly**, the FASB can keep the thing on track by developing professional ethics and other remedy measures. In contrast to worries, I believe that the comparability will be increased rather than decreased if the whole profession takes prudent attitudes to this problem.

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• Facilitate the harmonizing with IASB. Given globalization of the economy, truly international accounting standards are needed to increase transparency and spur cross-border investment. The goal of the convergence project in accounting is to unify accounting standards, which in turn, should improve comparability of financial statements across national jurisdictions. It is clear that investors globally could benefit to the extent that transparency and high quality information might be provided by a common worldwide approach. In order for that to happen, U.S. accounting standards must undergo some heavy revisions in a relatively short time.

Harmonizing with IASB not only benefits accounting profession, but also benefits all the participants in the capital market. Foreign firms will benefit from it, because their costs are reduced; Investors will benefit form it, because they have more opportunities to invest; U.S markets will benefit from it , because it improves the market efficiency , increases the attraction of U.S markets to global capital; U.S economy will benefit from it, because they have more blood.

• Facilitate cultivating high-quality accounting talents. The FASB not only could play a major role in enhancing the value of accounting rule, making sure the language is easy to understand, but also play important roles in cultivating accounting talents. As pointed above, the current standard setting drives the accounting teaching focusing on interpretation of GAAP, it is expected that the principles-based approach will change the way of accounting teaching, and facilitate students to creative and critical thinking abilities.

Development of New Conceptual Framework

So far, the FASB has issued six conceptual statements, which are about objectives of financial reporting, qualitative characteristics of accounting information, basic elements of financial reports, and measurement and recognition in financial statement. Accounting conceptual framework provides a necessary common conceptual underpinning. The primary use of the framework is to make sure the FASB does not issue standard in a random fashion.

I disagree with that the Board need to develop an overall reporting framework as in IAS1. Holding this point is not only because the framework plays fundamental roles in accounting reporting, but also because the framework is a crystal after intensively struggling against different thoughts. If we look back at the generating process of conceptual framework, we can see the intensive argument of different opinions behind the statements. For example, definitions of assets and liabilities are the product of "assets and liability view" and "revenue views". Most importantly, no one of FASB framework and the IASB frame work is perfect even they have differences.

But I advocate making some changes of conceptual framework to meet the needs of the new approach, and to reflect the fruits of researches in recent two decades. There are several factors that need to be considered before any action is taken to the conceptual framework.

First of all, we need to clarify what problems are derived from the current conceptual framework in current standards-setting. Secondly, when we shift to the principals-based setting, what kind of conceptual framework do we need? As I said in the above, the current conceptual framework is not perfect, we need to develop new concepts, and revise some concepts, such as liability concept.

Thirdly, it depends on the extent to which FASB conceptual framework harmonizes with IASB conceptual. Differences exist between the FASB conceptual framework and the IASB conceptual framework. None of the frameworks are perfect, For example, matters of financial statement presentation and display were neither addressed by FASB, nor addressed by IASB. The FASB's framework has its merits, it is not realistic to give up the FASB's conceptual framework and adopt the IASB's framework. However, it is a current trend to harmonize the framework worldwide, so it is necessary to enrich, and revise our conceptual framework.

Fourthly, In historic perspectives, the FASB's framework was developed two decades ago. Since then, business and financial activities have changed considerably and have become increasingly complex. As a result, many of the issues of today are different and more complex than those that were contemplated when the framework originally was developed. For this reason, some updating of framework may be both desirable and necessary to enable it to better cope with the issues of today and tomorrow.

Overall, changing standards-setting to principles-based approach is a systematic engineering, it needs well-designed and prudent implementation, I am glad to see that the FASB take a significant step to the right direction, and have an opportunity to participate in the process, make my contributions.

Attachment: GAAP for Leases 2

Accounting for Leases

FAS-13

FAS 19	Financial Accounting and Reporting by Oil and Gas Producing Companies
FAS-22	Changes in the Provisions of Lease Agreements Resulting from Refundings of
	Tax-Exempt Debt
FAS-23	Inception of the Lease
FAS 26	Profit Recognition on Sales-Type Leases of Real Estate
	an amendment of FASB Statement No. 13
FAS-27	Classification of Renewals or Extensions of Existing Sales-Type or Direct
	Financing Leases
FAS-28	Accounting for Sales with Leasebacks
FAS-29	Determining Contingent Rentals
FAS 34	Capitalization of Interest Cost
FAS 37	Balance Sheet Classification of Deferred Income Taxes
	an amendment of APB Opinion No. 11
FAS 41	Financial Reporting and Changing Prices: Specialized AssetsIncome-
	Producing Real Estate
	a supplement to FASB Statement No. 33
FAS 45	Accounting for Franchise Fee Revenue
FAS 47	Disclosure of Long-Term Obligations
FAS 53	Financial Reporting by Producers and Distributors of Motion Picture Films
FAS 57	Related Party Disclosures
FAS 63	Financial Reporting by Broadcasters
FAS 66	Accounting for Sales of Real Estate
FAS 67	Accounting for Costs and Initial Rental Operations of Real Estate Projects
FAS 71	Accounting for the Effects of Certain Types of Regulation
FAS 76	Extinguishment of Debt an amendment of APB Opinion No. 26
FAS 77	Reporting by Transferors for Transfers of Receivables with Recourse
FAS 86	Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise
	Marketed
FAS 89	Financial Reporting and Changing Prices
FAS 90	Regulated EnterprisesAccounting for Abandonments and Disallowances of
	Plant Costs
	an amendment of FASB Statement No. 71

² Adopted from ACCT490 Course Notes made by Dr. Jeff Harkins

FAS-91	Accounting for Nonrefundable Fees and Costs Associated with Originating or
	Acquiring Loans and Initial Direct Costs of Leases
FAS 92	Regulated EnterprisesAccounting for Phase-in Plans
	an amendment of FASB Statement No. 71
FAS 94	Consolidation of All Majority-Owned Subsidiaries
	an amendment of ARB No. 51, with related amendments of APB Opinion No.
	18 and ARB No. 43, Chapter 12
FAS 95	Statement of Cash Flows
FAS 96	Accounting for Income Taxes
FAS-98	Accounting for Leases:
	Sale-Leaseback Transactions Involving Real Estate
	Sales-Type Leases of Real Estate
	Definition of the Lease Term
	Initial Direct Costs of Direct Financing Leases
FAS 102	Statement of Cash FlowsExemption of Certain Enterprises and Classification of
	Cash Flows from Certain Securities Acquired for Resale
	an amendment of FASB Statement No. 95
FAS 105	Disclosure of Information about Financial Instruments with Off-Balance-Sheet
T1040	Risk and Financial Instruments with Concentrations of Credit Risk
FAS 107	Disclosures about Fair Value of Financial Instruments
FAS 109	Accounting for Income Taxes
FAS 111	Rescission of FASB Statement No. 32 and Technical Corrections
FAS 125	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
FIN 6	Applicability of FASB Statement No. 2 to Computer Software
F114 0	an interpretation of FASB Statement No. 2
FIN 18	Accounting for Income Taxes in Interim Periods
111/10	an interpretation of APB Opinion No. 28
FIN-19	Lessee Guarantee of Residual Value of Leased Property
FIN-23	Leases of Certain Property Owned by a Governmental Unit or Authority
FIN-24	Leases Involving Only Part of a Building
FIN-26	Accounting for Purchase of Leased Asset by Lessee during Term of Lease
FIN-27	Accounting for a Loss on a Sublease
FTB 79-10	Fiscal Funding Clauses in Lease Agreements
FTB 79-11	Effect of a Penalty on the Term of a Lease
FTB 79-12	Interest Rate Used in Calculating Present Value of Minimum Lease Payments
FTB 79-13	Applicability of FASB Statement No. 13 to Current Value Financial Statements
FTB 79-14	Upward Adjustment of Guaranteed Residual Values
FTB 79-15	Accounting for Loss on Sublease Not Involving Disposal of a Segment
FTB 79-16	Effect of a Change in Income Tax Rate on the (R) Accounting for Leveraged
	Leases
FTB 79-17	Reporting Cumulative Effect Adjustment from Retroactive Application of FASB
	Statement No. 13
FTB 79-18	Transition Requirement of Certain FASB Amendments and Interpretations of
	FASB Statement No. 13
FTB 81-4	Classification as Monetary or Nonmonetary Items

FTB 81-5	Offsetting Interest Cost to Be Capitalized with Interest Income
FTB 82-1	Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases
FTB 85-3	Accounting for Operating Leases with Scheduled Rent Increases
FTB 86-1	Accounting for Certain Effects of the Tax Reform Act of 1986
FTB 86-2	Accounting for an Interest in the Residual Value of a Leased Asset:
	Acquired by a Third Party or
	Retained by a Lessor That Sells the Related Minimum Rental Payments
FTB 88-1	Issues Relating to Accounting for Leases:
	Time Pattern of the Physical Use of the Property in an Operating Lease
	Lease Incentives in an Operating Lease
	Applicability of Leveraged Lease Accounting to Existing Assets of the Lesson
	Money-Over-Money Lease Transactions
	Wran Lease Transactions

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