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Sent: Thursday, December 12, 2002 12:49 PM

To: director@fasb.org

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Subject: FASB File Reference 1125-001 Comments

Letter of Comment No: 7/ File Reference: 1125-001

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December 10, 2002

To: FASB File Reference 1125-001

From: Nicholas A. Sirianni

Subject: Comments Regarding Principles-Based Approach

This memo is in response to the FASB's request for public comment on the proposal to adopt principles-based standard setting. I am a student at Providence College in Providence, R.I., and am writing this as a component to my Intermediate Accounting I class. We have studied throughout the semester the due process followed in setting accounting standards, as well as the importance of the qualitative characteristics of financial statements. In addition to this, we have discussed in detail the current events in the accounting industry - especially the implications of the Sarbanes-Oxley Act as well as this proposal currently in front of the board. It is with this that I find it important to provide input to the FASB regarding this important proposal.

Proposal For Principles-Based Standards Setting

The FASB's arguments for the adoption of principles-based standards setting are very legitimate. Increasingly, globalization of business has taken place, causing an increased importance in bringing U.S. GAAP in line with international standards. This is becoming more and more vital, as we need to ensure comparability between companics on an international basis, as well as provide a set standard for multi-national entities. In addition, in the wake of scandals such as Enron and WorldCom, something must be done to prevent earnings management by manipulation of financial statements. Unclear or overly detailed rules make it very easy for unethical companies to manipulate numbers and give an inaccurate portrayal of company earnings. As is reported in the Wall Street

Journal on Dec 2, 2002, "The Accounting Debate: Principles vs. Rules", many times the rules-based approach of financial standards provides a level of protection and companies for auditors and companies legally, and is therefore supported. Placing principles-based standards into use would eliminate much of this barrier of protection. Hopefully in doing so, the manipulation of rules and numbers can be stopped, and auditors and corporations themselves will be more inclined to ensure that financial statements are truly transparent.

Possible Lacking in Principles-Based Approach

Like any issue, this one is not black-and-white. I personally had the opportunity to hear Harvey Pitt speak at Brown University in early November. While he is a supporter of this proposal for a principles-based approach, he also stated that "Where there is a will to commit fraud, it will be done." Regardless of what way standards are set, ethical guidelines must be clearly stated and followed to ensure a high quality of information. The FASB must be careful to make certain that in developing such standards, measures are being taken to ensure they can be clearly followed by members of the accounting industry. Like any transition, this one will not necessarily be easy, and a protocol to deal with the change must be developed at the time a decision is made on the proposal. Trade-offs must be made between relevance and reliability when dealing with matters such as historical cost as well as for complicated items such as derivatives, in a principles-based approach. The board must ensure that the overall usefulness of financial statement information is not in any way compromised.

The FASB is moving in the right direction in the shift towards principles-based standards setting. It must be careful to consider, however, all implications of whatever decision is made. It is only with a thorough plan of implementation and support that a change to accounting standards will be successful.