Letter of Comment No: 67 File Reference: 1125-001 Date Received: 12/12/02

TO: FASB Members FROM: Kevin Kornobis

DATE: December 11, 2002

SUBJECT: Response to proposal for public comment concerning principles-based

accounting.

I have recently been made aware of the fact that the FASB is seeking public comment as part of the third step in the due process of creating accounting standards. I understand that in the past accounting standards have been developed on a rules-based approach. The purpose of this memo is to express why I believe there should be a change to more of a principles-based approach because it will allow for more transparent accounting.

My name is Kevin Kornobis. I am an accounting major at Providence College writing to voice my opinion on this hotly debated issue. The recent rise in the level of technical detail has led to a "check-box" approach of accounting as one *Wall Street Journal* article referred to it. It seems as though accountants feel that as long as they follow the rules to the letter, "check each box," they can distort a company's financial statements however they want. Enron "checked each box" when it used subsidiary companies to "legally" hide enormous amounts of debt grossly misleading investors as to the financial health of the company. In light of such recent scandals I believe a change to a more principles based approach is appropriate.

The new principles based approach should place more emphasis on the individual accountant's own professional judgment and less emphasis on the actual rules. Accountants should no longer account for transactions in a particular way because GAAP says to. Instead accountants should use their own professional judgment and account for transactions in a certain was because it best reflects what actually happened.

The reason this new approach will work is that when pressure is put on individuals to hold themselves accountable to do the right thing, they usually do. Consider a particular collegiate institution that gives all tests on the Honor Code, without supervision. An honor code puts the burden on the students to hold themselves accountable for not cheating. In an institution where an Honor Code is absent, the professor is responsible

for preventing cheating. Therefore I believe that if students from an institution with an Honor Code and an institution without one were surveyed, more students from the institution without an honor code would have cheated. I view the FASB as the professor in this instance and the accountants as the students. If the FASB gives general, principle-based guidance and then steps "out of the room" the accountants will be left to hold themselves accountable to do the right thing. As a result quality and transparency of financial reporting will increase substantially.

Thank you for taking time to read this memo. I hope that my ideas were helpful in reaching a decision on this controversial matter.

Along with this change there would also have to be a reduction in the liability of accountants for wrong judgments. One of the reasons the rules-based approach has been used is that under this approach accountants can use the rules to protect themselves from liability. If a movement towards placing more of a burden on accountants' judgment takes place, accountants should not be held liable for honest, wrong judgments. While I am aware that the FASB would not be able to make this amendment, I believe that the FASB could heavily influence the SEC towards reducing accountants' liability.