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To: Financial Accounting Standards Board Director

From: Andrew Hayes

Subject: Proposal for a Principles-Based Approach to U.S. Standard Setting

My name is Andrew Hayes and I am an intermediate accounting student at Providence College. It has recently come to my attention that the Financial Accounting Standards Board is considering a principles-based approach to U.S. standard setting. The purpose of this memo is to discuss the advantages and disadvantages of the proposed approach and compare them to the current rule based approach.

In the current rule-based system, there is a large margin for interpretation of accounting regulations. This hard set of rules is firmly planted on the accounting world; however, it seems to be failing amidst corporate controversy along with large accounting firms bending the rules to meet employer expectations. The proposed principles-based approach is designed to significantly reduce the need for guidance by phasing out "exceptions and other complexities". This less complex approach reduces the amount of guidance and power the auditor controls in terms of the recording of financial data. This leaves less room for accounting scandals. This is a very big issue and the reduction of the possibility of an accounting crisis in the future.

However, the principles-based approach will require the guidance of accountants to establish the validity of a certain financial reporting procedure. The problem with this is that with all the recent distrust of accountants, companies will be hesitant to trust accountant's opinions and views. Also, with no laws to base the accountant's decisions upon, this principles-based approach may give accountants too much power and control over the financial reporting of a company. The current approach prevents such control with the strict regulation set by strict rules. Strict regulations with enforcement by the SEC should be firmly imposed on the accounting industry in order to ensure the protection of investors.

If this proposal is to go through, the board must consider an oversight entity to replace the regulations of the current system. The principle-based approach leaves too much freedom for an accountant and this could lead to the improper disclosure of information. The accounting industry will need to take responsibility for future problems and scandals and this will not

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happen without a governing body. Also, some consequences need to be put in place to hold the accountants responsible for fraudulent financial data disclosure. Once these conditions are met, the new principle-based system should work very well in the current business world.

The proposed principles-based approach to U.S. standard setting is an excellent answer to the current problems with financial reporting. Please contact me via email with any questions or comments.