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December 3, 2002

Mr. Robert Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

**Letter of Comment No:** 30  
**File Reference:** 1125-001  
**Date Received:** 12/4/02

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

Dear Bob:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Financial Accounting Standards Board (FASB) proposal, "Principles-Based Approach to U.S. Standard Setting" (the proposal). The American Bankers Association (ABA) brings together all categories of banking institutions to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

The ABA commends the FASB on its decision to examine ways to improve the financial accounting and reporting process, and to consider a principles-based approach to rulemaking. The ABA is extremely interested in how the FASB standard setting process works, and a principles-based approach is theoretically appealing to many of our members. We look forward to discussing our views with you in more detail during the FASB Roundtable on December 16, 2002.

The ABA supports the efforts of the FASB to consider a principles-based approach to rulemaking. It is our understanding that FASB Concepts Statements were written to provide overall basic principles and that more specific accounting statements would be developed, using the Concepts Statements as the basis. We anticipate that this will not be the case under a principles-based approach – the principles will be provided, however, the specifics will not be provided.

Over past years, we believe that much of the accounting standard setting process has taken on a cookbook approach. Much of this is due to accounting rules being "issued" by way of speech writing, task forces, private meetings, and interpretations after a Statement is issued. For example, we believe that the rules in FASB Statement No. 133 were not finished at the time the Statement was issued and as a result, the Derivatives Implementation Group (DIG) resolved over 180 additional issues.

Although the ABA supports the FASB's efforts to consider a principles-based approach, we have some concerns and ask the FASB to consider them as part of making this change to the rulemaking process.

There is a delicate balance between providing too much versus too little detailed guidance. We are concerned that a principles-based approach may not provide enough guidance in circumstances that require additional clarification. We agree with the FASB that in most circumstances the use of a principles-based approach, in conjunction with management judgment, can provide adequate accounting guidance, and that transactions should be accounted for based on substance rather than form. However, additional guidance may be necessary in certain circumstances to assist companies in knowing how to comply, so that they are not whacked after the fact for non-compliance. Additionally, often it is necessary to have a certain level of detail to maintain comparability between companies in accounting for similar transactions. Different interpretations for similar transactions may result in different accounting from company to company, as well as, between industries.

This is especially true when considering an environment that includes such financial accounting standards as "accounting for leases", "accounting for derivatives", and soon, "consolidation of special purpose entities". We view the FASB's project on consolidation of special purpose entities to be an attempt by the Board to develop new accounting rules using a principles-based approach. We are concerned, however, that the proposed rules lack sufficient guidance to apply the rules consistently with regard to the consolidation, particularly variable interests. We are concerned that a principles-based approach may result in rules that are issued without basic guidance to establish a framework for the principle. We caution that this could be one example where the principles-based Standard issued by the FASB may not provide adequate guidance to assist companies with implementation of the rules.

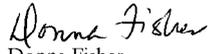
Another concern is working with external audit firms. Under a principles-based approach, we are concerned that unique transactions will require additional consultation with auditors to achieve the appropriate accounting treatment. Although this is similar to the current situation where external auditors are consulted and specific rules are interpreted and applied, we believe certain circumstances may occur where auditors will be writing accounting rules rather than assisting with implementation. We believe that accounting rulemaking should remain with the appropriate authority – the Financial Accounting Standards Board – and, thereby, receive adequate due diligence.

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We applaud the FASB for evaluating ways to improve the rulemaking process. We support the effort of the FASB to consider adopting a principles-based approach to accounting standard setting. We believe it is important to maintain consistency in financial reporting. Furthermore, we believe adequate guidance should be provided to assist with implementation of principles based rules and such guidance should remain in the hands of the FASB.

We hope this information is useful. If you would like to discuss this letter in more detail, please contact me.

Sincerely,

  
Donna Fisher