Advanced Accounting, Acct 450, Fall 2002

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Financial Accounting Standards Board 401 Merrit 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Re: Principles-Based Approach to U. S. Standard Setting

To Whom It May Concern:

Our responses to your requested comments follow:

- 1. We do not support the proposal for a principles-based approach to U.S. standard setting because of the following reasons:
 - The proposal allows too much discretion left to accountants and management. This could facilitate fraud by allowing more flexibility within the principles. An auditor's ability to challenge management could also be reduced because the auditor would not have the rules to rely on.
 - This proposal could encourage a litigious environment with too much uncertainty about interpretations of financial position.
 - This proposal could lead to a lack of comparability among companies that adopt it.

- The board should not develop an overall reporting framework as in IAS 1 because
 it mainly focuses on financial statements rather than the entire economic outlook of a
 company since the detailed disclosures would probably not be required.
- 3. Interpretive and implementation guidance should be provided under all circumstances. Relying solely on professional judgment would be a grave mistake. The differences in interpretation would give companies' too many choices leading to definite loopholes, misrepresentations, less comparability and less reliability. For example the FASB's accounting standard on stock options gave companies the choice to either expense or merely footnote the fair value expense. Had the rule been more cut and dried and required companies to expense stock options then situations like Enron and many others may not have happened. The FASB is the most qualified body to be the primary standard setter because they have the underlying foundation of the original standards. FASB can take what expertise they already possess and improve from that point.
- The majority of professionals should be able to adjust to a principle-based approach to U.S. standard setting since the goal here is to simplify reporting compared to the current complex reporting standards. The losers here will be the users since they will have less detailed information to make decisions.
- 5. The only benefit to adopting a principles-based approach to U.S. standard setting would be timelier issuing of new principles that must occur in our changing marketplace. They should be timelier since they would be more board and general than our current complex standards.

The costs associated with adopting a principle-based approach to U.S. standard setting would be extraordinary they would include the following:

- The cost to reeducate all users, issuers and auditor of financials.
- Increased legal fees to battle out in court the differences in interpretations
 of the accounting principles.

- The cost to develop and implement new, or modify existing, software to handle this principle based approach.
- The costs to FASB and AICPA to develop implement and monitor these changes.
- Requiring globalization could be rendered too costly for some smaller, underdeveloped countries to comply. Some foreign accounting policies are written to target a specific economic goal, changing to globalized principles could change the targeted economic outcome resulting in a possible market collapse.
- And most importantly is the cost of losing more consumer confidence in
 the marketplace since the consumer would have to use less reliable
 information, especially during the transition period of standard based
 accounting to principle based accounting. Restatement may adversely
 affect investment ratios since they are dependent on reported accounting
 earnings.
- 6. The board should consider that if adapted a principle-based approach to U.S. standard setting could stifle the economic development in this country. This country is based on intelligent and creative minds continuously enhancing the market with introductions to new financial instruments. Unless stringent rules are in place differences in interpreting these standards will cause financial reporting to be in <u>less</u> reliable, comparable and transparent. FASB should also consider making these and current standards more readily available to all users and at no cost. Also, since current financial reporting is relied upon so heavily by investors, analysts and others to make forecasts the FASB and the SEC should consider implementing reporting standards for forecasts.

Sincerely,

Yosuke Sato, Yvonne Egdamin, and Sylvia Rennert