



# **SCHMIDT, PRESTON & ASSOCIATES, P.A.**

*A Professional Corporation of Certified Public Accountants  
and Business and Tax Consultants*

October 30, 2002

Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Letter of Comment No: **6**  
File Reference: **1125-001**  
Date Received: **11/1/02**

RE: File Reference No. 1125-001  
Proposal for Principles-Based Approach to U.S. Standard Setting

Dear Sirs:

I whole-heartedly support the Financial Accounting Standards Board ("FASB")'s proposal for a principles-based approach to U.S. standard setting. I have been asking for such an approach ever since serving on the Accounting Standards Executive Committee from 1982-1985 and on the Technical Issues Committee of the PCPS prior to that and during participation with various task forces and committees relating to accounting and auditing standards.

However, your Proposal fails, in my opinion, to focus on the primary reason such a principles-based approach is needed: It is needed to ensure the integrity of financial reporting.

What good is timely financial reporting when it is incorrect? How can financial reporting be relevant or reliable when it obscures, confuses and misstates financial information? We will never have integrity in financial reporting without professional judgment and the FASB, through its over-zealous application of insidiously detailed rules, has robbed our profession of its judgment.

In the Proposal, you explain that much of the detail and complexity in accounting standards has been demand-driven, but you fail to admit the source of that demand. Didn't it come from representatives of the largest accounting firms, who themselves were only trying to push their own clients' agendas? Didn't it come from the SEC and won't that demand be stronger in the current climate? You state that "...others (including preparers and auditors) have indicated a need for detailed guidance because it limits the ability of the SEC and others to second-guess professional judgments." Clearly, the current climate actually proves that statement false. At the present time, the entire WORLD is second-guessing the auditors' professional judgment. How can the failure of detailed guidance be more clearly evidenced?

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In spite of the fact that the accounting and auditing profession has imploded and has become the brunt of jokes, you only give lip-service to this disaster by saying, "Recently, many have expressed concerns about the quality and transparency of U.S. financial accounting and reporting." What an understatement! As I wrote in a letter to the AICPA on July 8, 2002, "Drastic situations call for drastic, creative, pro-active measures." It seems to me that both the AICPA and the FASB would rather roll over and play dead (and neither may have to "play" much longer).

The discussion in the Proposal purposefully establishes a defense for your prior inaction and an excuse for your unwillingness to make a change now by stating that the past was driven by outside demands and that the current proposed change to a principles-based approach "...would require changes in the processes and behaviors of all participants in the U.S. financial accounting and reporting process, not *just* [emphasis added] the FASB and other standard-setting bodies. *Thus, in order for that approach to work, all participants much be equally committed to making those changes.*" Sounds like a cop-out to me, not like an organization being paid to lead and to establish U.S. accounting standards.

I and others who are out in the trenches and who actually want to be good auditors continue to do our best to follow all of the 147 extremely complex and detailed pronouncements that you call standards - which, according to Appendix B of *Accounting Standards Current Text*, you yourselves have either amended or changed over 500 times. If the standards were not so detailed and complex and if the implementation guidance were not so rule-driven, hundreds and hundreds of changes and amendments would not be necessary.

The Proposal implies that auditors are not willing to apply professional judgment because of concern about SEC enforcement and related litigation matters. That may be true of the auditors who have been placing "demands" on the FASB, but it certainly is not true for all of us. Such a negatively-biased view of auditors may be a self-fulfilling prophecy that has contributed to the explosion of audit failures that are in the news today. If concern regarding litigation is such a primary driving force, then the accounting standards setting process should be turned over to the American Bar Association.

One of the many arguments you make against the change to a principles-based approach is that it "... could lead to abuse, whereby the principles in accounting standards are not applied in good faith consistent with the intent and spirit of the standards." Clearly most people, including the man on the street, would say that there has been nothing but abuse of our current accounting standards. In my opinion, it is the existence of detailed, rule-driven standards that has created the abuses dominating the news today.

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Too often auditors find themselves pressured by clients to accept unusual and highly questionable (but often creative) applications of exiting standards because their clients demand that the auditors show them exactly where such applications are prohibited in our detailed rules. All detailed rules have a flip side... what is not detailed in the rules must, by definition, be OK. This approach is exactly what has caused our current problems.

In conclusion, I believe that the discussion in the Proposal confirms that the FASB has outlived its effectiveness. I suggest that we look to the International Accounting Standards Board to do what the FASB has not and does not wish to do, and we should not wait until 2005 as agreed by US and EU regulators yesterday.

Sincerely,

A handwritten signature in cursive script that reads "Sandra S. Parker". The signature is written in black ink and is positioned above the printed name.

Sandra Schmidt Parker, CPA