

Letter of Comment No: 43
File Reference: 1125-001
Date Received: 12/9/02

To: The Financial Accounting Standards Board
From: Michael T. Crawley
Date: December 8, 2002
Subject: Response to the Board's proposal for a principles-based approach to U.S. standard setting.

As a junior accountancy major at Providence College, I feel that the transparency and quality of U.S. financial reporting is of chief importance, especially in light of the recent corporate deception that has taken place. Hence, I suggest that the Board consider a mixture of both rules and principles-based approaches to U.S. standard setting. I believe that this combined method will best achieve the primary objective of financial reporting. Thus, this approach will yield honest, clear, and useful financial information to all users.

The accuracy of financial statements is in jeopardy under the current rule-based system. "The development of rule-based accounting standards has resulted in the employment of financial engineering techniques designed solely to achieve accounting objectives rather than to achieve economic objectives." I feel these words of former SEC chairman, Harvey Pitt, are very true. Companies have circumvented rule-specific guidelines to enhance their stated income and conceal debt. As a prime example, Enron's "special purpose entities" disguised significant liabilities from its balance sheets, yet remained within the rule-based framework. Undoubtedly, investors and creditors will not be able to make adequate decisions if selfish corporations are able to manipulate reality in such a fashion.

Businesses have this deceptive ability partly due to the number of rule-making bodies that exist. Consequently, intricate and conflicting standards are established. Thus, dishonest firms possess the opportunity to avoid faithfully representing the economic reality of their business activity. Therefore, I agree with the Board in declaring yourselves as the primary standard setter in an attempt to simplify interpretations of future guidelines.

The meticulousness of the current rule-based method also removes the auditor's certified opinion from their assessment of financial information. Heavy reliance on rules allows auditors

to harbor the mentality that, “it’s not my judgment, it’s the rules that tell us this is wrong.” In order for auditors to effectively ascertain the transparency of information, they need to be able to think from the investor’s point of view. Auditors cannot properly execute their responsibilities if strict regulations obscure their judgment.

Therefore, I suggest that a principles-based system overseen by one regulatory body with limits incorporated into the standards will provide a clearer financial reporting environment. This approach preserves the pure spirit and intentions of accounting standards. These broader-based guidelines are also more difficult for deceitful corporations to manipulate. Furthermore, such a structured principles-based approach facilitates a more straightforward interpretation, and hence upholds the comparability and consistency of financial statements across industries. In addition, auditors will have rules to guide their opinions, rather than dictate what their judgments should be. I presume that if the Board adopts a combined approach of this nature, then financial information will be more pertinent, useful, and thus ensure that quality decisions are made by its users.

I firmly believe that the quality of U.S. financial accounting warrants careful attention. Likewise, I am grateful for the opportunity to comment on the environment of financial reporting, which is so crucial to the success of our economy. I would also appreciate any follow-up correspondence available after next week’s public roundtable discussion on this matter.