

*new york state society of*

**NYSSCPA**

*certified public accountants*

530 fifth avenue, new york, ny 10036-5101  
www.nysscpa.org

January 7, 2003

Ms. Suzanne Q. Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

By email: [director@fasb.org](mailto:director@fasb.org)

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

Dear Ms. Bielstein:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents 30,000 CPAs whose daily work activities will be substantially affected by the captioned proposal. NYSSCPA thanks FASB for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments with the input of members of the NYSSCPA Auditing Standards and Procedures Committee and the NYSSCPA SEC Practice Committee. If you would like additional discussion with the committee, please contact Steven Rubin, chair of the Financial Accounting Standards Committee, at (212) 492-3799, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jo Ann Golden  
President

Attachment

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**NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON FASB PROPOSAL FOR  
PRINCIPLES-BASED APPROACH TO U.S. STANDARD SETTING**

January 7, 2003

**Principal Drafter**

**Fred R. Goldstein**

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Robert H. Colson

# **Comments of the Financial Accounting Standards Committee of the New York State Society of Certified Public Accountants on the FASB's Proposal for Principles-Based Approach to U.S. Standard Setting**

## **Overall Comment**

Given the mandate of the Sarbanes-Oxley Act of 2002 that the SEC conduct a study on the feasibility of principles-based accounting standards in the U.S., and considering the Act's mandate that consideration be given to the extent that U.S. accounting standards should converge with international accounting standards (which are principles-based), the committee accepts that a principles-based approach to U.S. accounting standard setting (PBASS) will become a reality.

Nonetheless, a PBASS by itself will not necessarily result in a vast improvement in financial reporting, in the public's confidence in the financial reporting system, or in the ethical behavior of preparers and auditors.

## **Specific Comments – Keyed to Questions Posed in the Proposal**

- 1) Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?**

### **Supportive of attempt at new approach, but skeptical about constituents' mindsets**

The committee supports the FASB's efforts to improve the quality and transparency of financial accounting and reporting in the U.S. by adopting a PBASS. Such an approach may be difficult to implement, however, due to the mindsets of the board's constituencies and the number of practical implementation questions that are not addressed in the proposal.

- 2) Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair overview?**

### **"True and fair" has its pluses and minuses, but may be worth a try to see if it helps focus preparers and auditors on doing "the right thing" (See also our response to Question 3 for comments on the development of an overall reporting framework)**

The proposal discusses the need for an overall reporting framework as in IAS 1, which would include a "true and fair" override. The true and fair override is conceptually similar to the exception to AICPA Code of Conduct Rule 203, which permits an auditor, in rare circumstances, to issue an unqualified opinion on financial statements, even though such statements contain a material departure from a generally accepted accounting principle. However, Rule 203 applies only to auditors, not to preparers and, then too, only to auditors that are AICPA members.

Some Committee members believe that the concept of true and fair might not be as easily applied in the U.S. as it is in jurisdictions where it is both statutorily grounded and an integral part of the accounting culture.

Few Committee members have ever seen the Rule 203 exception applied in practice. Some Committee members, therefore, expressed concern that the true and fair concept might actually have the unintended adverse effect of condoning the use of GAAP exceptions, which could further erode public trust.

Nonetheless, the committee supports a goal of reinforcing the need for financial statements to be presented in conformity with GAAP, unless a particular principle does not clearly present results that are both true and fair in the particular circumstances. Further, the true and fair concept should be articulated in a way that would serve as an ethical reminder to all constituents rather than an excuse for financial manipulation.

**Financial statements disclosures not specifically addressed in the Concepts Statements are covered in the rules-based approach, but are not dealt with in this Proposal.**

The FASB Concepts Statements do not specifically address the form and content of financial statement disclosures; rather, each of the existing rules-based standards deals with the form and content of disclosures required to satisfy the standard. While the proposal considered the concept of true and fair, it did not address how the form and content of financial disclosures, which are important to the true and fair concept, will be maintained under a PBASS.

The committee, therefore, believes that the FASB's Conceptual Framework requires revision as the first step in any move toward a change to a PBASS. In addition, specific disclosures included in individual FASB current and future pronouncements should be subject to a sunset provision whereby they will be automatically reviewed for continued applicability after a specified time, for example, five years.

- 3) Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing that guidance?**

**Practical questions and concerns about the implementation of PBASS, the transition period, and supplementary guidance for principles promulgated.**

The committee favors a change in standard setting that would provide understandable guidance without many interpretations.

The proposal is unclear how the transition from a rules-based approach to a PBASS would actually occur. Will the old standards be scrapped and new standards written; or will new standards evolve over time, resulting in the old standards being replaced as existing principles are reconsidered?

Some Committee members suggest the need for secondary guidance to handle questions concerning practice in industry. The proposal does not address the circumstances, if any, when interpretative guidance should, or would likely, come from the FASB or other groups, rather than be left up to individual preparers and auditors.

- 4) **Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?**

**Concerns about need for more auditor and preparer judgments under a principles-based approach and the risk of litigation because of less available guidance.**

Preparers and auditors are comfortable with detailed bright-line standards and have come to rely on bright-lines in day-to-day practice. In addition, at times the standard-setting process has been subject to overwhelming industry and political influence. The many interpretations of the basic principles in recent FASB pronouncements have overshadowed them and blurred rather than heightened the intended bright-line.

The committee believes it is possible for the FASB to adopt a PBASS without necessarily eliminating completely implementation guidance.

Furthermore, a PBASS, which will create fewer written rules, requiring preparers and auditors to use their own judgments, could increase litigation exposure because of the litigious mindset of the various constituents in the U.S. financial reporting process. For example, litigation could result if the SEC subsequently expressed a preference for a single approach concerning alternate accounting judgments that are already applied differently by preparers and their auditors.

In today's environment, financial statement restatements not only have a negative impact on investor perception and stock prices, but also harm the reputations of the preparer and auditor, and lead to litigation and SEC enforcement inquiry.

**The FASB should ask Congress to provide for appropriate "safe harbor" provisions for preparers and auditors if PBASS is adopted.**

Ideally, Congress should enact safe harbor legislation for those who in good faith prepare and audit financial statements according to principles-based standards. The FASB should ask Congress to provide such legislation for those parties.

- 5) **What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?**

**The FASB's financial resources have been limited in the past. How has that changed? Is the simplification project get jettisoned?**

FASB will be able to develop standards under a PBASS only if it has greater financial resources. In addition, FASB's agenda had included a simplification project that envisioned a centralized access to all accounting rules. Will the resources be available to include that too?

In calling for the development of an overall framework, the FASB must be realistic about the resources it needs to accomplish the task, as well as the efforts needed by those involved in providing input to or using the financial reporting system.

**6) What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?**

**Recently issued FASB exposure drafts suggest the FASB needs to constantly re-examine whether its product is consistent with its standard setting goals and FASB's resolve to withstand political, industry and other pressures**

In order for a PBASS to succeed, the Board needs to continually make an unbiased self-examination to ensure that it produces standards (and exposure drafts) that are well crafted, clear and unequivocal, and simple and easy to understand. Comment letters submitted by the committee on the recent exposure drafts on Special Purpose Entities, Guarantor Accounting, and the FASB123 amendment concerning transition and disclosures, for example, expressed concerns that those exposure drafts lacked the aforementioned characteristics.

Finally, the committee fervently hopes that, under a PBASS, the FASB will (1) develop standards that faithfully consider input from constituents and (2) be able to withstand political, industry and other pressures.