

To: Financial Accounting Standards Board
From: Aaron Holzinger
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Subject: Principles based approach to U.S. standard setting

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My name is Aaron Holzinger and I am currently a junior accounting student at Providence College. As part of our final exam, my professor has asked our class to comment on the proposal for a principles-based approach to accounting standard setting.

One pertinent topic that needs to be considered before making a decision involves the adjustment process to the proposed principles based approach. In order for the new approach to be effective, the standards must contain a fair amount of understandability, which permits reasonably informed users of accounting information to perceive its significance. One problem that arises is how to implement the new system in a manner that puts all of the various users of financial information on the same page. There are many individuals who have been abiding by the rules-based approach for a long time and it will most likely take a substantial amount of time, effort, and patience to adjust to the proposed principles-based approach. Some questions that must be addressed include how difficult it will be to retrain users, who will administer the teaching, and who will ultimately fund the retraining activities.

Another issue that must be taken into consideration is the effect the change will have on colleges and universities throughout the nation. Existing courses of study will undoubtedly need to be altered in order to properly teach the information to aspiring users of accounting information. It will take an ample amount of time for new textbooks to be composed, as well as for professors to become acclimated to the process and all of its implications. Professors will need to fully understand all there is to know in order to pass the information on to students in an effective manner.

One of the overriding issues here is the timeliness with which the principles-based approach can be effectively implemented to become fully operational. The cost-benefit constraint must also be considered and it must be determined that the expected

benefits from the new approach will outweigh the full cost of implementation before it is acted on.

Unfortunately, I am unable to provide answers or any valid solutions to any of the mentioned issues due to my lack of experience and limited knowledge of the topic. Although this is true, I am aware of the fact that these are all pertinent issues that must be addressed prior to making the final decision. Hopefully, the International Accounting Standards Board will be able to help, considering the fact that they utilize the principles-based approach and are well informed of the system. They should be consulted in order to find out what they feel the complications that could arise may consist of, as well as the cost content of putting the proposed plan into operation.