



News Release

Financial Accounting Standards Board

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For Immediate Release

FASB Issues Proposal for a Principles-Based Approach to U.S. Accounting Standard Setting

Norwalk, CT, October 21, 2002—The Financial Accounting Standards Board (FASB) has published a proposal for public comment on a principles-based approach to accounting standard setting that discusses how that approach might improve the quality and transparency of financial reporting and affect development of future standards. The FASB seeks comment on the proposal by January 3, 2003, and will hold a public roundtable discussion on this topic on December 16, 2002. The proposal is available on the FASB's website at www.fasb.org.

Some constituents believe that as business transactions have become increasingly sophisticated and complex, so, too, have the accounting standards. Linda A. MacDonald, FASB Project Manager, explained some constituents have expressed concern that detailed accounting standards are more difficult to use and costly to implement and others believe that detailed rules allow for structuring transactions that meet the literal requirements of the rules, but ignore the intent and spirit of the standards.

In commenting on the proposal, Robert H. Herz, FASB Chairman, stated, "The FASB is committed to improving U.S. financial accounting standards. Many believe that moving to broader, more principles-based accounting standards such as those used in other parts of the world would facilitate better reporting in the United States. Others, however, are concerned that a principles-based approach could reduce the comparability of financial information and leave too much room for judgment by companies and auditors."

Because adoption of a principles-based approach would require changes in the processes and behaviors of all participants in the U.S. financial accounting and reporting process, the Board needs more information before it determines the extent to which it should undertake initiatives to adopt that approach. Additionally, the recently enacted Sarbanes-Oxley Act requires the SEC to investigate the feasibility of implementing a more principles-based approach to accounting in this country and, therefore, the FASB staff worked closely with the SEC staff in preparing this proposal.

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About the Financial Accounting Standards Board

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information. For more information about the FASB, visit our website at www.fasb.org.

The Financial Accounting Standards Board

Serving the investing public through transparent information resulting from high-quality financial reporting standards, developed in an independent, private-sector, open due process.

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