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Cy Youngdahl looks back on... 23 with SEC

His trademarks are a flower in the lapel, a long cigar and an impish smile. The only thing that varies is the flower, which might be a lily of the valley, a rosebud or a miniature mum, depending on the season. He grows them all, of course, but he prefers the rosebuds, his favorite being the deep red Rubaiyat, though he has also grown the deep yellow Fort Knox variety and other hybrid roses grown especially for their buds.

Cy's broad accent smacks of Boston. He was born twenty-six miles from there in the old, old village of Wrentham. "The town is so old," says Cy, "that it had its 250th anniversary when I was about thirteen years old. We had a big parade and pageant at the time. I was an Indian," he chuckles.

Commuting twenty-six miles to and from Boston University daily during the 1920s was an adventure in itself and, as Cy puts it, "one of the reasons I didn't graduate cum laude. The train didn't stop at our station. It just slowed down. So I boarded it on the run every morning and jumped off on the fly at night."

When asked about his retirement plans after his forty-two year career with H&S, Cy mentioned the luxury of sleeping late. When asked to be more specific, Cy said, "Well, I get up at 5:30 now, so 'sleeping late' probably means I'll get up at half past six," spreading the words out as only a Bostonian can.

Cy also mentioned a retirement chore that strikes his fancy: a job, without pay, with a tape measure manufacturer in Michigan. "I'll test the product at beauty shows around the country," he says with a laugh.

Executive Office partner Bill Quinlan has dubbed Cy Youngdahl the "Poet Laureate of H&S" though Cy prefers the title "Poet Lousyate." The poetry that he calls doggerel, and which he sings, has become a tradition at the lighthearted

annual Christmas dinner of Executive Office partners. Last year's rendition of *Good King Wenceslas*, with lyrics appropriate though not publishable, was a memorable performance.

Cy says that his family always liked to sing, and he performed in his younger days with a glee club in East Orange, New Jersey, and a church choir in Brooklyn. His singing career in H&S began "six or eight years ago." The Firm had just completed an SEC filing for a large Japanese company. H&S had arranged a dinner for the Japanese businessmen, which included the company president and his interpreter. After the dinner the president asked one of his delegation to sing the company's song. In response a member of Nomura Securities, the Japanese equivalent of Merrill Lynch, Pierce, Fenner & Smith, sang his firm's song. Then John W. Queenan, former managing partner of H&S, looked at his group and asked if anyone knew an appropriate song. No one did.

"On the way home on the train that night," says Cy, "I made up a poem to the tune of *Titwillow*, from Gilbert and Sullivan's light opera *The Mikado*. If singing was traditional at formal dinners with the Japanese, I would be ready.

"When we handled the SEC filing for the next Japanese client, we held a luncheon for the group. As it turned out, singing is not traditional at a luncheon, but we didn't know that at the time. I told Harry Williams, then partner in charge of the International Department, that I would volunteer to recite my little verse — or sing it. He said, 'No, don't sing it.' But then when he stood up he said that I was going to sing. So I sang it, and they were very appreciative. Then it seemed if you did it for one Japanese group, you had to do it for all of them. That's the way it got started."

Another of Cy's special performances is his spirited reading of ads and jokes

from the satirical *Bawl Street Journal* while he reports on recent developments in the SEC field at the annual meeting of H&S partners. In his final performance as an active partner, last September, he received a standing ovation.

The years ahead will not find Cy without an audience for his wit and songs. Cy and Barbara Youngdahl's elder son, Curtis, Jr., ("he doesn't like the Junior") is a mechanical engineer in Manchester, Connecticut, and he and his wife have a son, Curtis Earle, one and a half years old. To avoid confusion, he is called Earle and, naturally, his grandfather calls him the Earle of Manchester. A second son, John, is a civil engineer in Philadelphia, whose daughter, Laura Marie is two and a half. Cy and Barbara also have a daughter, Carol Ellen, attending the University of Hartford. It is obvious that the family will play a big role in Cy's retirement plans.

Over the years, Cy Youngdahl has won the respect of associates and clients throughout the practice. In May, Cy and Barbara were invited to Miami for a special farewell party by Florida Power & Light, a client whose audit he had supervised for ten years and whose filings he worked on after moving into the SEC department.

New York office partner Gilbert Tinker, whom Cy had worked with for many years on the Electric Bond & Share Group engagement, says of Cy, "He is one of the most intelligent people I have ever worked with. He has an exceptional ability to analyze a situation and to get his point across."

Executive Office partner Phil Sandmaier, Jr. says: "Cy is a guy with the happy knack of being firm in a pleasant way. Working in a highly significant area, he exhibits the ability to communicate an understanding of and sympathy for the client's position."

Executive Office partner Hal Robinson, who has succeeded Cy as head of the SEC department, adds these notes. "He



is well liked and respected, and honest almost to a fault. He has a vivid memory. He is broad-minded and decisive—a true professional accountant."

In summation, managing partner Mike Chetkovich said, "It is difficult to characterize Cy Youngdahl in a few words. He is such a rare combination of qualities and talents, and a most interesting personality. But if I were to attempt such a characterization, I would use that most complimentary of descriptions when applied by one's own fellows—as in sports, 'a player's player,' or in law, a 'lawyer's lawyer.' Cy is truly one of these—an accountant's accountant—a pro's pro—one thoroughly respected for his competence and admired and loved for his personal qualities."

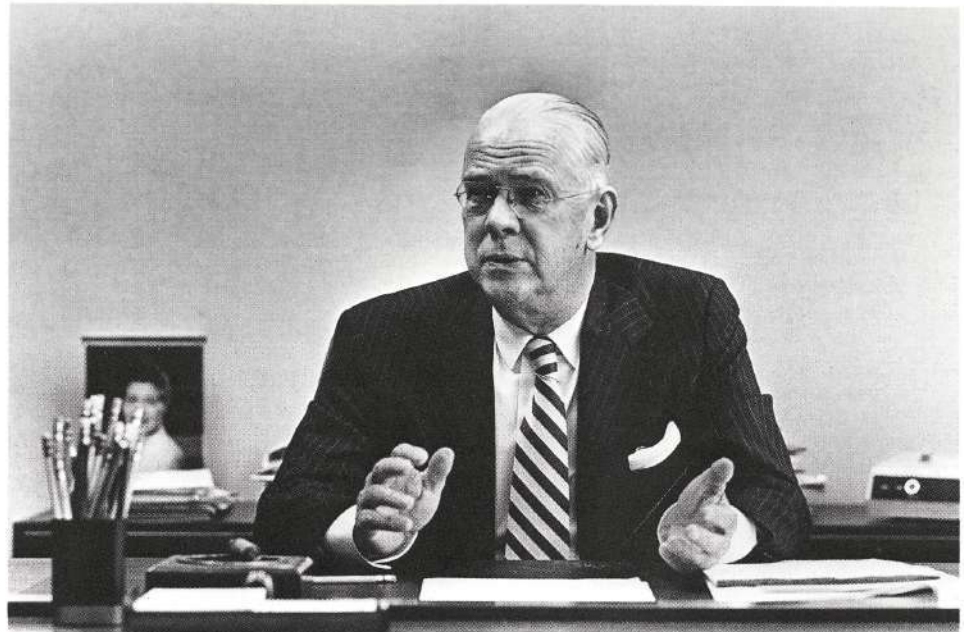
Cy Youngdahl, the professional and poet laureate, has retired. Just before his retirement, he spoke with *H&S Reports* about his work, an interview from which the following has been taken:

Cy, for the benefit of those who are not familiar with SEC work, could you explain very briefly what our SEC practice entails?

We render a wide range of services dealing with the financial statements required by the various Securities Acts, administered by the Securities and Exchange Commission, which, among other things, regulates the sale of securities to the public. From 1933 on, it has been a federal requirement that most companies offering securities to the public must present financial statements audited by independent accountants.

Our primary job in the Executive Office SEC department is reviewing all of the documents used in offerings of securities by our clients—the prospectuses, registration statements, proxy statements and so forth—to determine whether the technical accounting requirements of the SEC Acts are satisfied.

Would you comment on the changes



you have seen regarding our SEC practice over the years, and what these changes reflect?

I first became particularly active in SEC work around 1950 while in the New York office. I transferred to the Executive Office SEC department in 1962 and became the head of the department in 1963.

The number of SEC filings for the country as a whole has been growing by leaps and bounds. In 1950, for example, there were 487 registration statements filed with SEC, with a total securities value of a little over \$5 billion. By 1964, the number of filings per year had more than doubled and the dollar value had tripled. In 1972, there were over 3,700 filings with a total securities value over \$62 billion.

Our SEC practice has been substantial throughout this period. I think we have maintained just about the same share of filings, if one excludes the initial filings by relatively untried companies. We have been quite selective in accepting engagements for public offerings of highly speculative untried ventures.

At the time I started doing SEC work, there were relatively few forms for filing. There are now numerous forms. Some of these, such as Form S-9 which is used only for high grade debt issues, are designed to eliminate textual information not considered essential for this type



of issue. Another, Form S-7, is also a somewhat simplified form designed for use by fully established companies only. At the same time that the text portion had been reduced in what we call "bob-tailed" forms, the amount of financial information required has not been correspondingly reduced except for the omission of schedules in some instances.

In fact, new requirements have been introduced. At the time Form S-9 was introduced, a new provision required showing a "ratio of earnings to fixed charges." Only a few years ago, this requirement was extended to registration statements relating to offerings of preferred stock so that there is now required the showing of a "ratio of earnings to fixed charges and preferred dividends combined." This requirement has never been formally promulgated and does not appear in the SEC's printed rules, but it is nevertheless in full force and effect. There are also other unwritten requirements.

A few years ago a thorough review of the Securities and Exchange Commission was made by the so-called "Wheat Committee." This committee made various recommendations and over the past couple of years many of these have been implemented. From my point of view, one of the most interesting involves the promulgation of a new registration form called Form S-16. This is a most peculiar form. It is only a few pages long and does not, of itself, include any financial statements but rather incorporates by reference, financial statements previously filed. This form has only limited use, however.

Is there a specific challenge in SEC work, and does it require special talents?



One of the challenges in SEC work arises from the basic nature of the various Securities Acts, namely, the requirement for full disclosure. One needs an agile mind to recognize that particular facts may be important to certain readers, and to see to it that the financial statements are written so that they will not be misunderstood by the literally thousands of potential readers. In order to do SEC work properly, one must have a thorough grounding in accounting principles and audit practice, keep up to date on all new developments both in the profession and at the SEC, understand a plethora of detailed rules, and be able to work under pressure. Not only are many registration statements complicated, but they are sometimes prepared in a great hurry. If a client is trying to raise \$100 million, and he thinks the market is "ripe" for his proposed issue, it is only natural that he will make every effort (and expect us to make every effort) to proceed rapidly.

In connection with most registration statements, the underwriters require what is called a "comfort letter" from the auditors, designed to help the underwriters in their legally required investigation of the security issue. The accountant who works on SEC matters must have a clear understanding of what the auditors can and cannot do in connection with such letters, must have a thorough acquaintance with the

literature with respect to such letters, and while being of maximum assistance to the client and the underwriters, must not permit the letters to provide more of a basis for reliance by underwriters or anyone else than is appropriate in the circumstances. Our Firm has been prominent in the development of appropriate wording for comfort letters.

How much of your SEC work in EO is largely routine, and how much has involved unusual problems?

Much of the work in the SEC department might be considered routine in that it conforms to well-known patterns. For instance, registration statements filed on Form S-8 (in which the published report is incorporated by reference) and reports on investment companies tend to be rather routine. But in many cases the work often involves substantial problems of accounting principles and these problems require that we confer with EO experts like Oscar Gellein, Robert Billings, Robert Whyte and Harry Weyrich.

We have worked on so many things that it is hard to describe anything as "unusual." Most of our work has to do with U.S. companies. Some of it has to do with Canadian companies and a small portion with offerings by concerns in other countries. We were recently engaged in an offering by Botswana RST, which is headquartered in Botswana, a country in Africa. We have also worked on applications for listing securities on the London Stock Exchange. This work is certainly unusual, for the London rules are considerably different from SEC rules.

I recall working on a listing on the London Stock Exchange by a client in Japan. As is usual, time was of the essence and documents had to be shipped from Tokyo to New York, changed, and sent to London. This involved cooperation among (1) our people in Japan, (2) the SEC department here, and (3) our counterparts at Deloitte & Co. in London, as well as company representatives, underwriters and lawyers. It seems that to list on the London Stock Exchange a good deal of personal interviewing is required, and in this Deloitte & Co. is most helpful.

In another case, a substantial Japanese client who wished to offer securities in the United States for the first time had prepared a time schedule for the offering and attempted to obtain approval from the Ministry of Finance in Japan. The approval was delayed for about two months and, when obtained, one Wednesday, was conditioned on the company's meeting its original time schedule which called for filing in Washington the next Tuesday. Meeting

the deadline appeared to be impossible, but all of us resolved to do everything possible to meet it. A messenger from Japan flew to New York and delivered to us typed drafts of the financial statements — about two pounds worth — on Thursday at 10 p.m. Dick Schaab and I ran through the draft as rapidly as we could and talked by phone with our Barney Arvin in Tokyo beginning at 2 a.m. Friday (4 p.m. in Tokyo) to get answers to questions raised in our brief review. We talked for 100 minutes at \$4 a minute. Just one of the things he told us enabled us to call the Chief Accountant in the Division of Corporation Finance at the SEC on Friday morning and obtain permission to omit parent company financial statements; this reduced the volume of financial statements by about 40 per cent.

As Dick and I worked together, we would accumulate our questions in the form of a telex message. At 5 p.m., the message would be picked up by a messenger from the New York office of Nomura Securities and sent over their wire to Tokyo. When Barney and his associates arrived in his office one hour later (8 a.m. the next day, Tokyo time) they would prepare a reply which would be on my desk when I reached the office the following morning.

The registration statement was filed on Tuesday morning, became effective within the time limits imposed by the Japanese authorities, and the securities were quickly sold.

What lessons does an SEC specialist learn from these unusual cases? How do they affect his manner of thinking, or his method of approaching his work?

An SEC specialist learns, from all that he does in the SEC Department and not only from unusual cases, to develop an acute sense of what is material and what is not material; of what needs to be disclosed and what need not be disclosed; of the necessity for thinking things through and using common sense; and of the necessity for absolute clarity. He tends to develop a "second sense" with regard to transactions which on the face appear to be normal but which, based on experience, seem not quite right, and also to pursue all his questions to a conclusion. This has the effect of broadening his experience and his outlook and enables him to do better work in the future.

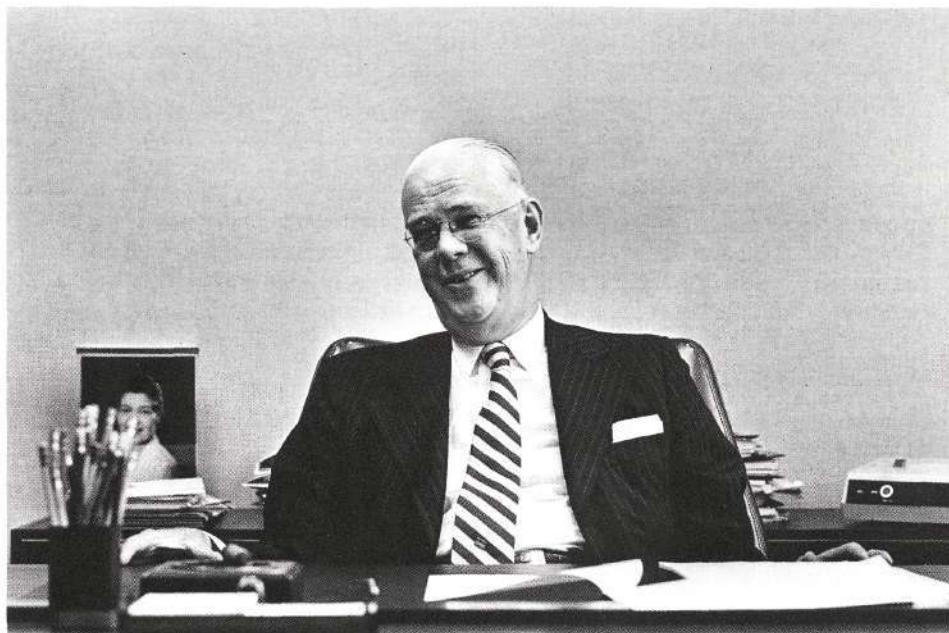
What kind of sensitivity should a specialist in SEC work show?

A good specialist in SEC work must, of course, have a marked degree of sensitivity to the feelings of others

working with him, including practice office personnel and clients. He must have a special feeling of sensitivity with respect to the imaginary "average investor" who, it is presumed, will read the document. At the same time, he must be very firm in seeing that things are done right. He needs to have an active imagination so that a document will not only be correct but will be considered to be correct one, two, three or four years hence. In other words, he must be alert to spot a fact that today seems like a cloud no bigger than a man's hand, but which may turn into a thunderhead tomorrow, and a tornado the next day.

One place in which imagination and sensitivity are very important is in the determination, customarily made by the head of the SEC department, as to whether we will accept an engagement from a prospective client to report on financial statements to be included in a registration statement. Let me illustrate. Some years ago, I received a call from a practice office partner who asked whether we should accept an engagement from a company whose sole business was the manufacture of equipment to be used in establishments providing an area for racing toy cars. The equipment was sold for long-term notes receivable. This was a relatively new venture, cash flow was minimal, and, accordingly, one could not help being pessimistic about its prospects for success. We rejected the prospect and shortly thereafter it entered bankruptcy.

Sensitivity and imagination are particularly valuable in connection with proxy statements relating to proposed mergers. In the ordinary offer to sell securities, the prospective investor makes a simple decision to buy or not to buy. In a proposed merger, the present stockholder has a very complicated decision to make. He may decide that the merger is reasonable and vote in favor of it. He may decide that the merger is not a good one and he may (1) sell his present holdings, (2) vote against the merger, (3) vote against the merger and then take the legal action required to protect his dissenter's rights, or (4) do nothing. He may also decide that the offer is so good that he goes out and buys some more of the stock he presently holds. In fact, he may decide to arbitrage, that is, he may decide to sell short securities of one of the merger partners and buy securities of the other merger partner, on the basis that it is likely the merger will occur and there is at that moment a substantial spread between the price of the securities of one merger partner and the "equated" price of the other. By "equated" I mean the value attributed to the number of shares to be received upon a particular merger.



In your opinion, what has the SEC Act done for the country? What might life today be like if there had not been an SEC Act?

What you refer to as the "SEC Act" is actually a series of acts. The Securities Act of 1933 regulates public offerings. The Securities Exchange Act of 1934 regulates securities exchanges and the companies whose securities are traded. The Public Utility Holding Company Act of 1935 very specially regulates such companies. The Investment Company and Advisors Acts of 1940 specially regulate investment companies and investment advisors. All of these Acts, but particularly the 1933 and 1934 Acts, were designed to provide the potential investor with "full disclosure." Prior to their enactment, securities were often sold with very brief offering circulars and, although civil actions could be brought if an offering circular was misleading, there was not, to my knowledge, any widely recognized standard for disclosure nor were there in existence the punitive provisions contained in the 1933 Act. The investor today has access to much more information than he used to have. I presume that, absent the 1933 and 1934 Acts, he would not have access to more than a small part of the information available today. Thus I believe these two Acts have substantially benefited the public and increased investor confidence.

The 1935 Act was designed to eliminate what were considered to be dangerous financial practices, including the "pyramiding" of holding companies one on top of the other. A body of regulations has developed under this Act. Because public utilities are highly regulated anyway, I doubt whether there would have been any great change had the 1935 Act not been enacted.

One final question, Cy. As you retire how do you feel about your many years of working in SEC practice?

It has been a great experience, at once intriguing and rewarding. I have a feeling of deep appreciation for the efforts of the H&S people who have labored so diligently and conscientiously to implement the full disclosure requirements of the Securities Acts, concentrating their abilities on excellence of audit work and intelligible presentation of financial information, and observing the high standards for which our Firm is so well known. We have a splendid organization and it is most gratifying to know that our work is being carried forward by alert, thoroughly capable men and women. □