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CONFERENCE ON ACCOUNTING PRINCIPLES

A conference of 35 prominent CPAs -- representing 21 major accounting firms -- has recommended that the American Institute of Certified Public Accountants should undertake a study of ways to improve its function of delineating standards of financial reporting.

The conference, authorized by the AICPA's Board of Directors, was held in Washington, D. C., on January 7-8.

President Marshall S. Armstrong of Indianapolis, Ind., administrative partner of Geo. S. Olive & Co., served as chairman.

Objectives of Meeting: As defined in its agenda, the conference had a three-part purpose:

- To unite the accounting profession in reexamining how accounting principles should be established.
- To isolate the principal issues or questions which would need to be considered in any such reappraisal.
- To explore the various alternative approaches to the conduct of such a study.

In opening the conference, President Armstrong observed that criticism of the profession's current efforts to establish accounting principles -- as well as suggestions for new approaches to the task -- could not be safely ignored. They could not be ignored, he said, because they emerged from too many responsible quarters both within and outside of the profession, and they were often expressed with intense feeling. "If we are not confronted with a crisis of confidence in the profession," he added, "we are at least faced with a serious challenge to our ability to perform a mission of grave public responsibility."

President Armstrong also noted that, in authorizing the conference, the Institute's Board of Directors was recognizing that the profession had a special obligation to take the initiative in sponsoring a candid reappraisal of how its standard-setting role could be made responsive to the needs of those who rely upon financial statements in the decade of the 1970s.

"It may be," he said, "that we cannot achieve a high degree of unanimity on what, if anything, needs to be done. It may well be, too, that we alone -- despite our unique qualifications -- cannot resolve the issues to the satisfaction of all concerned. But, at least, I suggest that we would be guilty of a grievous

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sin of omission if we did not seek to provide some leadership in undertaking this reexamination."

Range of Discussion: During the nearly 10 hours of discussion, the participants focussed on a number of crucial issues. These included such questions as:

- Is it desirable or necessary to undertake a broad review of how accounting principles should be established?

- What factors can be cited in support of the contention that such a study should be conducted now?

- What should be the legal status of pronouncements on accounting principles?

- Which elements in society have a legitimate right to participate in the establishment of accounting principles and how can that involvement be best achieved?

Conclusions of Meeting: After extended discussion, the conference adopted a resolution strongly urging the AICPA President to appoint two study groups, acting independently of one another, to explore ways of improving the Institute's function of establishing standards of financial reporting.

The recommendations proposed that the first study group should review the operations of the Accounting Principles Board, and the second should seek to refine the objectives of financial statements.

The conference indicated that the Institute's President should be granted considerable flexibility in determining the composition of each of the study groups. However, it was emphasized that each group should include significant representation from outside the practice of public accounting.

The conference also suggested that, in conducting their reviews, each study group should obtain comments, in a reasonably formal way, from preparers and users of financial statements as well as from practicing accountants. The comments, in addition to the formal deliberations of the study groups, should be made part of a public record.

President Armstrong indicated that he would inform the AICPA's Board of Directors about the conference's recommendations and that he expected them to be approved at the Board's next meeting on February 25-26.

The conference also took note of the fact that the American Accounting Association had recently appointed a committee to explore the feasibility of creating a public commission to determine how accounting principles should be established. The conference recognized that the Institute's policy in regard to the creation of such a commission should be determined by the Board of Directors; but it expressed the view that the AICPA should be prepared to cooperate with any responsible organization which sought to evaluate how standards of financial reporting could best be developed.

Closing Observations of President: In bringing the conference to a close, Mr. Armstrong said that he felt that its deliberations had been conducted in the spirit which he had urged upon the participants in his opening remarks.

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In his introductory statement, after extolling the dedication of APB members, Mr. Armstrong had suggested that the conferees should resist the natural impulse to question the motivation of the critics of the profession's current efforts.

"The temptation will be strong," he had said, to "suggest that some of those who berate the APB do so because they resent any limitations on their freedom which might adversely affect their reported earnings; or because they have become bone-weary of the protracted battles over recent APB pronouncements; or because they are pursuing some competitive advantage by adopting an approach which will endear them to the business community." He had deprecated this habit of ascribing unworthy motives to the critics. "For if we are to have any hope of achieving a constructive result," he said, "we must proceed on the assumption that all of us -- regardless of our present views -- are genuinely devoted to advancing the welfare of the whole profession."

Mr. Armstrong had also observed that it would not be helpful in the midst of a reevaluation of the current efforts to formulate reporting standards if members of the profession continued to air their differences in the public arena. He conceded that no one could legitimately attempt to halt or curtail dissent for an extended period since the issues involved were too significant to confine debate to a limited group. "But it also seems abundantly clear to me," he added, "that our chances of achieving a broad-based consensus on our future course would be vastly improved if we kept our arguments within the profession's family -- at least until we can determine whether or not there is any likelihood of a reconciliation of our differences."

That, he had said, was the principal aim of the conference. "If we can attain a substantial measure of unity," he contended, "I suggest that there is probably no problem beyond our ability to solve. However, if we are racked with internal discord and if each of us is going to press unilaterally for our own cherished notions of what ought to be done, then we had better know this soon -- and accept the dire consequences of our incapacity to act in unison."

In his concluding remarks, Mr. Armstrong indicated that the conference had demonstrated to him that the profession could indeed achieve agreement on how, together, its members might resolve a common problem.

Attendance at Meeting: The individuals in attendance at the meeting and the firms represented by them included:

Robert Coffman and Herman Kocour (Elmer Fox & Co.); Wallace E. Olson and Louis M. Kessler (Alexander Grant & Co.); A. Jay Bruch (John F. Forbes & Co.); Frank Weston and Spencer Gould (Arthur Young & Co.); Harry F. Reiss (Ernst & Ernst); Robert Trueblood and Karney A. Brasfield (Touche Ross & Co.); Harvey Kapnick and George Catlett (Arthur Andersen & Co.); C. Everett Johnson and Clifford Fay, Jr. (Harris, Kerr, Forster & Co.); Joseph S. Kirchheimer and Foster Jennings (A. M. Pullen & Co.); Matthew F. Blake (Hurdman and Cranstoun, Penney & Co.); L. William Seidman and Sam Pivar (Seidman & Seidman); Michael N. Chetkovich and Oscar Gellein (Haskins & Sells); Robert Field and Henry P. Hill (Price Waterhouse & Co.); Arnold I. Levine (J. K. Lasser & Co.); Walter E. Hanson and Joe Cummings (Peat, Marwick, Mitchell & Co.); Stanley D. Ferst (Laventhol, Krekstein, Horwath & Horwath); Ivan O. Bull and Leo Burger (McGladrey, Hansen, Dunn & Co.); John K. McClare (S. D. Leidesdorf & Co.); LeRoy Layton and Archie E. MacKay (Main Lafrentz & Co.); Philip L. Defliese and Kenneth Johnson (Lybrand, Ross Bros. & Montgomery).

The AICPA staff respresentatives were: Leonard M. Savoie, Executive Vice President; John Lawler, Administrative Vice President; and Michael Pinto, Assistant to the Executive Vice President.

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EXPOSURE DRAFT ISSUED ON AUDITS OF LIFE INSURANCE COMPANIES

A proposed audit guide for life insurance companies is now being circulated for comment among professional and industry groups. It is designed to present fairly the financial position and results of operations of life insurance companies for general reporting purposes in keeping with generally accepted accounting principles.

Insurance company financial statements are now based on statutory requirements primarily designed to protect the interests of the policyholders. "These statements demonstrate solvency and are appropriate for their purposes," Leonard M. Savoie said, "but they do not necessarily reflect fairly the earning capacity of the company."

Many financial analysts now make adjustments to reports of publicly-held stock companies for greater comparability with reports of other industries. This would no longer be necessary under the proposed guidelines.

Much of the draft is concerned with how the liability for policyholder benefits should be determined. It endorses the so-called "natural reserve" method for calculating liability for policyholder benefits. Under this method, more realistic assumptions would be made as to acquisition costs, future interest rates, assumed mortality rates, withdrawals and policyholder dividends.

Also, costs of acquiring new business would be spread over the periods in which premium income is recognized. Present practice is to write off these expenses as incurred.

After considering comments, which are due by May 15, the Institute's committee on insurance accounting and auditing is expected to publish the guidelines in final form.

The Accounting Principles Board is now considering provisions for deferred taxes on policyholders' surplus in a stock company and the manner in which gains and losses on investments should be recognized.

It is expected, however, that the final guide will contain recommendations on these matters, as well as specify the extent to which the guide will apply to mutual companies.

Copies of the exposure draft are available from Thomas Hanley, of the Institute's Technical Services Division.