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Spring Meeting of Council, Phoenix, Arizona, May 11-13, 1981

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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS,
SPRING MEETING OF COUNCIL

Arizona Biltmore Hotel
Phoenix, Arizona
May 11-13, 1981

CAHN & BLAIN
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ORIGINAL

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1 THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC
 2 ACCOUNTANTS, SPRING MEETING OF COUNCIL, was called to order
 3 at the Arizona Biltmore Hotel, Phoenix, Arizona on May 11,
 4 1981 at the hour of 9:00 o'clock a.m. by Mr. William
 5 Kanaga, Chairman.

6
 7 CHAIRMAN KANAGA: Good morning, Ladies and
 8 Gentlemen. Good morning and welcome.

9 I am pleased to welcome all of you, members
 10 of Council and guests to Phoenix. We have the assurance
 11 of our friends from Arizona that the excellent weather
 12 that we have had over the weekend will continue, and that
 13 the facilities here at the Arizona Biltmore will be pleasing
 14 to all of you, and we thank them for their hospitality.

15 We wish all of you a comfortable and enjoyable
 16 stay.

17 Before we get into the business of the
 18 Meeting, I would like to spend a few moments in tribute to
 19 Bill Gregory.

20 The first week of February of this year, Bill
 21 telephoned to tell us that he would be undergoing an
 22 operation in a very few days. Medical tests had shown that
 23 he had cancer and that the surgery would be major, and that
 24 he hoped, and we joined him, that it had been caught in time.

25 The operation revealed that the cancer was far

1 more extensive and had spread from the time of the tests
2 to the time of the operation, a period less than a week.
3 He underwent postoperative chemotherapy and went home to
4 recuperate.

5 He worked from home, in frequent touch with
6 his firm and with us in the Institute, and in constant
7 contact with the members of his family whom he dearly loved.
8 A main concern of Bill's was to give others the strength
9 to accept his condition.

10 He died peacefully at home on April 12th.

11 With his passing, the profession has lost a
12 great champion. He was a leader in every sense of the word.
13 He helped found and manage a respected and successful
14 practice. He fought hard for change in those areas of the
15 profession where his interests and experience were greatest.

16 At the same time he was a statesman, and in
17 dealing across the board with all of the profession's
18 problems, he was an eminently fair and balanced person.

19 Those qualities probably were especially in
20 evidence in the Special Meeting we had in Chicago last May.

21 His zest and love for life were apparent to
22 all who came in contact with him. His devotion to his
23 family and his loved ones was a model for us all.

24 We have lost a strong leader, a true
25 professional, and a trusted friend.

1 I would ask you to rise for a few moments of
2 silent tribute to his memory.

3 (Whereupon, a moment of silence was then
4 observed.)

5 CHAIRMAN KANAGA: Thank you. We will be
6 meeting for three morning sessions. During that time we
7 will be acting on some issues, discussing current
8 developments on others, and receiving progress reports on
9 still others, all of them of substantial import to our
10 profession.

11 In the "Action" category, you will be asked
12 to elect members of Council to fill vacancies since our
13 last Meeting, to act on a revision of the Bylaws, to
14 designate committees having authority to establish
15 Standards under Rule 204 as having authority also under
16 Rule 201 to interpret General Standards.

17 You will be asked to consider adoption of a
18 revised Council policy on reimbursement of members'
19 expenses, and you will be asked to elect a nominating
20 committee for the Division for CPA Firms.

21 We will also receive reports from several
22 guests and Committee Chairmen.

23 We are happy to have as a guest, Gordon
24 Cowperthwaite from Canada, President of the International
25 Federation of Accountants, who will bring us insight on

1 developments in the Federation.

2 Clarence Davis, Chairman of the Minority
3 Recruitment and Equal Opportunity Committee, will report
4 on the work of his Committee.

5 The Chairman of the Small Business Committee,
6 Ivan Bull, is spearheading that new project and will tell
7 us of his Committee's progress.

8 And then our day today will close out with
9 Frank Whitehand, Chairman of the Professional Ethics
10 Executive Committee, covering several important projects
11 underway in the Ethics Division.

12 For tomorrow we have arranged for a panel
13 discussion through which you will hear a report on the
14 Division for CPA Firms.

15 Then John Meinert, Chairman of the Special
16 Committee on Bylaws, will be offering for your acceptance
17 a proposed revision to the Institute's Bylaws which were
18 discussed, at some length and amended, as a result of
19 the Regional Council Meetings earlier this year.

20 Marvin Stone is chairing a Special Committee
21 reviewing the whole committee appointment process. I
22 understand that the Committee is nearing the end of its
23 work, and Marvin will give us, in his own inimitable
24 fashion, a preview of their thinking.

25 Allen Brout is Chairman of the Special

1 Committee on Solicitation, stepping into Bill Gregory's
2 role. That committee was appointed following the adoption
3 of the Resolution by the membership at our Annual Meeting
4 in Boston, and has been very conscientious in pursuing
5 its charge. Allen will be sharing some news and views
6 on the work of that committee.

7 We will conclude Tuesday's session with an
8 open forum in which you may raise matters not otherwise on
9 the Agenda.

10 Members of Council have received a resolution
11 from the Missouri Society relating to where we should locate
12 the CPE Division. That item and any others you have in mind
13 will be taken up before we break for golf and tennis
14 tomorrow.

15 Now, on Wednesday morning, we have Carmen
16 Milano, Chairman of the Annual Meeting Hospitality
17 Committee, who will convince all of us that Chicago is the
18 place to be in October.

19 Jake Netterville, Chairman of the Management
20 of an Accounting Practice Committee, will bring us up-to-date
21 on developments in this active and effective group.

22 Closing our Council Meeting will fall to
23 a panel discussion conducted by President Phil Chenok.
24 The Panel will consist of representatives of each of the
25 Technical Standards Committees and will serve as a status

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report on developments in their respective areas.

As we indicated in our letters to you prior to the Meeting, we expect to complete the program by about 11:00 a.m. on Wednesday so as to accommodate all of our travel schedules.

We have planned our program to allow time for discussion in connection with each item in the program. Council members are encouraged to take advantage of these opportunities to express views and ask questions as to Meeting proceeds.

We welcome your views throughout the Meeting. That applies as well to Committee Chairmen, who have the privilege of the floor throughout the Meeting, as well as those State Society Executive Directors and those guests whom we have invited to be with us.

Please keep in mind, however, that only Council members may vote on proposals and motions.

Because of that, we ask that Council members only sit in the Council Section, and that Committee Chairmen, State Society Executives, and observers occupy those sections reserved for them.

Finally, let me remind Council members to complete the attendance forms included in your folders and put them in one of the boxes at the rear of the room. They need only be filled out once during the Meeting.

1 Before we proceed into the program, I would
2 also like to welcome other guests of ours, Robert Garrity
3 from New Jersey, President of the CPA Society Executives
4 Association, and Joe Silvoso, President of the American
5 Accounting Association.

6 Mr. Secretary, do we have a quorum?

7 MR. SCHNEEMAN: Yes.

8 CHAIRMAN KANAGA: Thank you. Then we may
9 proceed.

10 First I would like to give you a brief report
11 on actions taken by the Board last Friday.

12 You have seen, been in receipt of actions
13 taken by the Board since our last Meeting in the fall, and
14 some of those actions will be discussed and debated in
15 greater detail at this Meeting.

16 With respect to the Friday Meeting, you will,
17 of course, receive minutes in the next few weeks.

18 At that meeting on Friday we covered a number
19 of discussion items. Our action items involved the adoption
20 of a revised Policy Statement on the Audit Committees of
21 publicly-held companies, to make it clear that such
22 committees typically approve for submission to the Board
23 of Directors the Public Accounting Firm to conduct the
24 annual audit of the company. The auditors are appointed
25 by the Board of Directors, and in some cases, the shareholders,

1 not by the Audit Committee.

2 The reason for that action was to clear up
3 some conflicting information that the Institute has issued
4 over the past 15 years in various publications, and was a
5 response to a specific request for clarification by the
6 Derieux Committee.

7 Second, the Board adopted a Policy Statement
8 making it clear that the Federal Taxation Executive
9 Committee has the authority to interpret General Standards
10 as they relate to tax practice, even though the Committee
11 has not sought authority from Council to issue interpreta-
12 tions enforceable under the Code of Professional Ethics
13 Rule 201, General Standards.

14 A third item, the Board authorized the
15 payment of \$150,000 in equal installments over three years
16 in support of the AACSB's Accreditation Program. The
17 payments will be made with the stipulation that they are to
18 be used solely to defray expenses in connection with the
19 accreditation of 150 hour programs.

20 This is consistent with the stated AICPA
21 Policy favoring such programs as a prerequisite for entry
22 into the profession.

23 Are there any questions on any of those
24 items?

25 A MEMBER: Would the AACSB accept on that

1 proviso, or do you have information in that respect?

2 CHAIRMAN KANAGA: We -- the question is,
3 will the AACSB accept a payment with that stipulation.

4 We do not know. They have been advised.
5 That in fact is a restricted type of payment.

6 If there are no further questions, I'd like
7 to proceed to the election to fill council vacancies.

8 As you can see from the material in your
9 folders, vacancies have arisen since the last Meeting of
10 the Council. The Bylaws authorize the Council to fill
11 these vacancies at this meeting.

12 With respect to the elected member seats
13 from Vermont, Hawaii and New York, we have sought the
14 advice of the State Society, and I present to you with the
15 endorsement of the Board of Directors the following
16 candidates:

17 John V.P. Meyer, Vermont, to fill the
18 unexpired term of David R. Coates, resigned, term expires
19 1982.

20 Garrett K. Serikawa, Hawaii, to fill the
21 unexpired term of Don Sakai, resigned, term expires also
22 in 1982.

23 Edward A. Weinstein, New York, to fill the
24 unexpired term of Joseph L. Brock, deceased, expiring 1981.

25 Do I have a motion to place these candidates'

1 names for election?

2 A MEMBER: So moved.

3 A MEMBER: Second.

4 CHAIRMAN KANAGA: Are there any other
5 nominations?

6 Those in favor of the nominees, signify by
7 saying aye. Opposed, like sign.

8 I hereby declare Messrs. Meyer, Serikawa
9 and Weinstein to be elected as Members of Council.

10 We also have an opening for a member at large
11 seat through the resignation of Joseph E. Connor.

12 At its December Meeting the Board of
13 Directors selected Rholan E. Larson of Minnesota to be
14 put forward for election to fill this vacancy. Since that
15 date, Mr. Larson has been nominated for the Office of
16 Vice Chairman of the Institute for the year 1981-82, and
17 the Council will be asked to vote on that nomination at
18 its fall meeting in Chicago.

19 Both the Nominating Committee and the Board
20 felt that we should proceed on Rholan's nomination as a
21 member at large, the benefit being his participation here
22 as well as at the fall Council Meeting.

23 On behalf of the Board of Directors, I
24 therefore present to you Rholan Larson as a candidate
25 for election to the vacant member at large seat for a term

1 expiring in 1982.

2 Do I hear a motion?

3 A MEMBER: So moved.

4 A MEMBER: Second.

5 CHAIRMAN KANAGA: Are there any other
6 nominations?

7 Those in favor? Those opposed?

8 In anticipation of your favorable vote, I
9 have invited these gentlemen to be with us here today, and
10 I invite them to participate and vote on all the issues that
11 will come before us during the Meeting.

12 The next item, approval of minutes of the
13 October, 1980 Meeting.

14 The minutes of that Council Meeting have
15 been distributed to you. We have not received any
16 suggested changes by mail.

17 Does anyone wish to comment on the draft
18 minutes?

19 May I have a motion for their approval?

20 A MEMBER: So moved.

21 A MEMBER: Second.

22 CHAIRMAN KANAGA: All in favor? Opposed?
23 The minutes are approved.

24 Next I would like to invite and welcome
25 Gordon Cowperthwaite, President of the International

1 Federation of Accountants, otherwise known as IFAC, to join
2 me.

3 Gordon was born in England and presently
4 resides in Toronto where he is a senior partner of Peat,
5 Marwick, Mitchell and Company and Peat, Marwick and Partners,
6 Management Consultants.

7 Gordon is both a chartered accountant in
8 Canada and a member of the Institute of Chartered
9 Accountants in England and Wales.

10 He's served as President of the Canadian
11 Institute of Chartered Accountants. He was elected Deputy
12 President of IFAC in October, 1977, and became President
13 in 1980.

14 Gordon.

15
16 G O R D O N C O W P E R T H W A I T E

17
18 MR. COWPERTHWAIT: Good morning, Ladies
19 and Gentlemen. Thank you very much, Bill, for the
20 introduction.

21 Let me say at the outset that I am delighted
22 to have been asked to address your Spring Council Meeting.
23 I hope in a very few minutes to outline the background of
24 IFAC, our objectives, what is happening, and our plans for
25 the future.

1 At the outset, I would like to recognize
2 the very special contribution to IFAC that has been made
3 by AICPA since the start, really, of our predecessor body,
4 which was known as ICCAP, or the International Committee
5 for the Coordination of the Accountancy Profession.

6 This was formed in 1972, and Mike Chetkovich
7 was a member of ICCAP, and also of IFAC, and served for
8 many years on Council, and he's been succeeded by Russ
9 Palmer.

10 As a technical service, we have had the
11 advice and the Council from the beginning of Don Roberts,
12 Wally Olson and Phil Chenok, and many of the members of
13 our profession here in the United States have served on
14 Committees.

15 One that I particularly want to just mention
16 is Bob May, I had the pleasure of seeing him this morning,
17 who's Chairman of our all important International Auditing
18 Practices Committee.

19 Lastly, but not least, who is known to many
20 of you but who is not here, Bob Sempier, who is our tireless
21 Executive Director and who transferred permanently to IFAC
22 when it was formed from the AICPA Staff in 1977.

23 So much of the progress that I believe I can
24 demonstrate to you that we have made is due to him and all
25 of the other members of the AICPA who have worked in the

1 International field.

2 Also I'd like to acknowledge gratefully the
3 very valuable financial contribution that has been made by
4 AICPA to IFAC for the payment of our accommodations and
5 related expenses in addition to the fees that you pay as do
6 all other member bodies.

7 You will have paid over some \$300,000 in
8 the first five years for these items, and this was probably
9 very necessary, was necessary to make the project viable
10 in the first instance.

11 Also delighted to see our auditor, Sam
12 Derieux, here this morning, and I will talk about all the
13 contributions you're making, I hope he considers he's
14 independent and objective in our accounting.

15 Many of you know about IFAC, but perhaps I
16 may be permitted to say a few words about background.

17 It was, I believe, and will stand out in
18 history as a historic occasion in Munich in 1977 when,
19 following five years of study by ICCAP we formed the
20 International Federation, and at that time, roughly some
21 70 member bodies, including your own from 51 Countries
22 signed the original Constitution.

23 We have grown somewhat, so we are now 76
24 bodies from 58 Countries for a total of three-quarters of
25 a million accountants divided roughly as half of them are in

1 public practice and half in industry, and all other avenues
2 of professional life.

3 I think this is significant, because as far
4 as we can gather we probably have got about 90 percent of
5 the organized profession around the world are now affiliated
6 with the International Federation, with AICPA, of course,
7 being the largest single group.

8 The objectives, as we put it in the
9 Constitution, the main objective is to develop and enhance
10 a coordinated world-wide accountancy profession with
11 harmonized standards.

12 Through cooperation with member bodies,
13 regional organizations and other world organizations, IFAC
14 attempts to initiate, coordinate and guide efforts to
15 achieve international technical, ethical and educational
16 guidelines for the accountancy profession, and although
17 it's a long way down the road, we ought to work towards
18 reciprocal recognition of qualifications for practice.

19 At Munich I had the honor to outline a 12 point
20 work program at the General Assembly of the International
21 Federation, and I said that I hoped by the time we met
22 in Mexico City five years later in 1982, that we would
23 have largely completed this.

24 I'm glad to say that that will be the case.

25 Of course most of the progress that we have

1 made is through our committee structure. Let me just
2 briefly try and outline what that committee structure has
3 attempted to achieve in the past four years.

4 We have about 150 people from 30 Countries
5 who are working with Council Committees or Special Task
6 Groups.

7 Our foremost committee is our International
8 Auditing Practices Committee, and to date is making excellent
9 progress. They have issued four guidelines that many of you
10 will be familiar with; the objectives and scope of the
11 Auditor Financial Statement, auditing engagement letters,
12 basic principles covering an audit, governing an audit,
13 and management.

14 They also have five exposure drafts; using
15 the work of an auditor, study of internal controls, internal
16 control and quality of audit work, audit evidence and
17 documentation.

18 These are all out for exposure, and this
19 Committee is really weighing the floor in the same way as
20 the International Accountancy Standards Committee has in
21 the area of accountancy standards for our profession for
22 harmonization on a world-wide basis.

23 Our Education Committee has completed two
24 exposure drafts which will be coming up to our Council
25 this week for ratification.

1 Firstly, prequalification, education and
2 training and continuing professional education.

3 These again are quite far-reaching guidelines,
4 and I think will help the profession on a world-wide basis.

5 Our Ethics Committee has issued drafts on
6 advertising, publicity and solicitation, and professional
7 comments, and it expects that these will be approved by
8 Council this week, and exposure drafts will go forward on
9 integrity, objectivity and independence and confidentiality.

10 Our Management Accounting Committee is one
11 of the ones that we have had some problems with as it tries
12 to come to grips with what the International Federation
13 can do in the field of management accounting.

14 They have issued an exposure draft on the
15 definition of management accounting, the responsibility
16 of management accountants, and their interface with
17 external auditors, and there is more to come.

18 I believe these Committees have a good
19 record of progress.

20 Now, we hope that these guidelines will be
21 implemented by member bodies. Many of us, of course, are
22 not affected by these guidelines because we have advanced
23 in our profession; however, even the United Kingdom, they're
24 reconsidering some of the educational standards because of
25 these guidelines, and here in the United States you are

1 reconsidering solicitation again, in some ways in line with
2 what we would hope would come out of this particular guideline.

3 But it's in the lesser-developed countries
4 where IFAC is very widely accepted, because almost
5 instantly we are providing a floor or a platform for these
6 professions.

7 The work program, therefore, is encouraging,
8 and the Planning Committee is working towards an ambitious
9 program that will be presented to the General Assembly in
10 Mexico City for implementation in the period 1982 to 1985.

11 Other areas of progress are, I believe,
12 important to the accounting profession world-wide.

13 Firstly, relations with world bodies. It is
14 really a recent phenomenon that world bodies, such as United
15 Nations and OECD are involving themselves in our accounting
16 world, particularly accounting standards and nonfinancial
17 disclosure.

18 IASC has been under quite a bit of criticism
19 from these bodies, because it is perceived as being an
20 organization of developed countries for the benefit of
21 transnational or multinational organizations.

22 Further, the nine founding members who
23 control the Board in perpetuity, there's something that
24 the United Nations feels is basically wrong with that.

25 IFAC is seen as perhaps being a more

1 Democractic Organization in that we have given more
2 recognition to more developing countries, and over the past
3 year the United Nations has held four meetings, each of
4 two weeks duration exploring the posture that that
5 organization should have in the field of accounting setting
6 standards, and to read the transcript of those meetings
7 is quite a hair-raising thing.

8 Fortunately we were invited, IFAC and IASC,
9 to be in attendance, and we have had the opportunity to
10 explain at length the relationship between ourselves and
11 what we are trying to do in the world of accounting.

12 As a result of this, we are cautiously
13 optimistic that particularly the United Nations will not
14 attempt to get into the accounting standard setting process,
15 and also there's a better understanding, I think, of the
16 relationship between IFAC and ISAC.

17 IFAC is also being active in the program
18 of consultation with world organizations including World
19 Bank, Development Bank and so on.

20 Last week I was in Washington meeting with
21 senior officers of the Inter-American Development Board,
22 the World Bank, International Finance Corporation and
23 others, and again all are very interested in the profession,
24 particularly in education and the development of standards
25 for accounting and auditing, because they regard it as

1 absolutely essential in the developing countries to have
2 strong professions, and they know the leadership has to
3 come from organizations such as the one I am proud to be
4 President of.

5 What about the relationship of the
6 International Federation and IAFC? This is quite a high
7 profile subject, has been appearing in the Press in the
8 last few months, and has been considered by your own Board
9 of Directors.

10 The first serious concern as to the position
11 of these two Organizations occurred when Joe Cummings was
12 Chairman of IASC, and in 1978 when he and I were in Perth,
13 Australia attending a conference and we started exploring
14 at that particular time as to what the relationship should
15 be, and Joe helped form the Working Party, because both of
16 these organizations are creatures of the profession of the
17 world, and we're really formed by -- at the same time in
18 1972, IFAC in five years to really sort out exactly what it
19 wanted to do while the structure of IASC took a more
20 limited manner of accounting standards and was able to get
21 going much quicker.

22 There is confusion world-wide as to why
23 there are two separate bodies. The issue is not one of
24 substance as IASC has been and will continue to be
25 independent in the issuance of accounting standards in the

1 same way as the IFAC Auditing Committee.

2 Rather it's the form and the appearance as
3 both appears separate or as one, and questions, are they
4 part of the International Organized Accounting Profession.

5 The Working Party which has been going at it
6 for the last three years met in January the last time and
7 agreed finally on the future in what we call a mutual
8 commitment document. This was ratified by IASC meeting in
9 Tokyo a little while ago, and will be ratified, I hope, at
10 the Meeting that Russ Palmer will be at, the Council
11 Meeting in New York later on this week.

12 Preliminary indications are that all major
13 bodies, including IASC, IAPC, will approve of it, and by
14 your Board and my own Institute in Canada agreed.

15 What will this mean to the world-wide
16 accounting profession when the agreement is ratified in
17 Mexico City in 1982?

18 Firstly, and I think very important, both
19 will formally recognize their joint reporting relationship
20 to the 78 sponsoring bodies which will the same after 1983,
21 and while not one organization, there will be -- would be
22 parts of the internationally organized accounting profession,
23 and IASC will continue to have full autonomy in the issuance
24 of standards in the same way as AICPA.

25 The Board of IASC will be nominated by IFAC

1 Council after 1987. Until that time the founding members
2 will not be subjected to the election process the same as
3 the International Federation, and thereafter IFAC has agreed
4 that they will recommend nine developed countries, the best
5 professionally, and those who -- with the largest GNP, and
6 four lesser developed countries who will under the voting
7 rules of IASC, if necessary, I hope it will never come, have
8 a blocking vote.

9 This seems to be regarded as absolutely
10 vital by world bodies such as the United Nations.

11 IFAC will be the acknowledged voice of the
12 accounting profession world-wide, and it has been agreed
13 will be the body to seek compliance with and the enforcement
14 of IAPC Standards as well as auditing guidelines, ethics
15 and education. IASC will be involved, and other interested
16 parties, in the Standards setting process, particularly
17 the users and preparers, and as I learned last week, the
18 World Bank, and IFAC will tender ten percent of IASC's
19 budget to assist LDC's in the -- to assist them in
20 participating in the Standard setting process.

21 This may seem somewhat foreign to you as to
22 why all of this is necessary, but we think this is
23 absolutely essential to the health of the International
24 Accountancy Profession, and all of us who are close to it
25 are delighted that we finally seem to have resolved what was

1 becoming an increasing problem, and through this we seem
2 to have gained the confidence of the all-important world
3 organizations such as United Nations.

4 Very briefly, the Twelfth International
5 Congress is in Mexico in October, 1982. This follows
6 directly on your Portland Congress, and we hope that many
7 members of AICPA will attend, and I hope to be able to
8 welcome you among the 6,500 who will be in Mexico City.

9 Mexico is going to be delightful, if slightly
10 different from Munich. There, as we know, everything ran
11 on the button and so on. Mexico might be slightly different.

12 Phil and I were talking last night, still no
13 preregistration forms, they were sent out three months ago,
14 probably the IAPC ones went to Alaska or something, but
15 don't let us worry too much about some of those things. Our
16 Mexican hosts will make us so welcome when we get there
17 that we will forget all of the things.

18 I don't have much hair, and in looking, after
19 this conference what little I've got is going gray at a very
20 rapid rate.

21 The format -- well, I think it will follow
22 others. It will be very interesting. Only one plenary
23 session. There will be five other sessions in small groups
24 all over Mexico, from 20 to 25 people in each session with
25 six subjects set out by function, which has been so popular

1 with people.

2 Many of you know Mexico City, it is almost
3 impossible to get around in that place, but we are all
4 in the Reporma area, and we have arranged it when Mexico
5 takes a religious holiday and three other days, so they
6 won't be too busy.

7 These International Congresses have been
8 formed for the profession's good. They're above politics,
9 and it's truly a meeting for the world-wide profession as
10 such.

11 Lastly, our Organization, we have put out our
12 Third Annual Report just a few days ago.

13 Phil has got copies. I hope some of you might
14 be sufficiently interested to want copies. We are still a
15 small group, just three professional staff headed by Bob
16 Sempier, and a budget for out of pocket expenses of
17 approximately half a million.

18 Of course the real costs of this organization
19 and IASC are substantially larger because of all of the time
20 that is devoted, and of course all the expenses are met by
21 the individual institutes, but the key to the progress is
22 the opportunity to meet with groups such as this and tell
23 you a little bit about what is happening.

24 The last six months I have had meetings in
25 Australia, New Zealand, India, Pakistan, Italy, Norway,

1 Germany, Caribbean and South America, and I have been much
2 encouraged by the enthusiasm, the interest and the feeling
3 that IFAC and IASC are truly world-wide.

4 You've got to have a lot of confidence in
5 the future and a lot of vision, but I believe the dividends
6 will be beneficial to our profession over the years ahead.

7 Thank you.

8 (Applause.)

9 CHAIRMAN KANAGA: Thank you, Gordon. Please
10 accept our invitation to stay with us as long as you possibly
11 can and enter into our discussions.

12 The next item is a review of the Interim
13 Financial Statements, and I would like to bring to the
14 platform Bill Keast who will present the Institute's
15 current financial picture.

16

17 W I L L I A M K E A S T

18

19 MR. KEAST: Thank you, Mr. Chairman, and
20 fellow members of Council.

21 You should have all received in your packets
22 of material the Interim Financial Statements as of February
23 28th, 1981 together with my written report on the operating
24 results in the variations from budget up to that point.

25 Just to summarize, the operations for the first

1 seven months resulted in the excess of revenues over expenses
2 being \$183,000 less than budget, the principal causes for
3 that shortfall being CPE revenue being less than expectations
4 to date, the sales of publications other than our magazines
5 also being under budget, and offsetting these shortfalls in
6 revenue items were expenditures less than budget in salaries
7 and related payroll costs. Printing and paper will reflect
8 the shortage in the sales of publications and CPE courses.

9 Expenditures in excess of budget, substantially
10 in excess of budget for members' travel, reflecting the fact
11 that more members are requesting reimbursement from the
12 Institute for travel expenses as well as the fact that travel
13 expenses themselves have risen substantially, as I'm sure
14 you all know.

15 We also have an item reflecting settlement
16 with the IRS of the allocation out of the formula for
17 allocation of expenses against advertising revenue in
18 our publications which was settled at a cost of \$122,000.

19 Under earlier methods of accounting I guess
20 that might have been reflected as a prior period adjustment.

21 As explained in my report, even though CPE
22 revenue for the remainder of the year is expected to recover
23 and achieve budgeted levels, the negative trends will
24 continue in other areas, particularly for costs allocated
25 with CPE Programs, Meetings and travel, so that instead of

1 achieving the budgeted net income of \$557,000 for the year
2 ending July 31, our revised projection indicates an
3 approximate break-even.

4 At the Board of Directors Meeting last Friday,
5 the financial statements for the eight months ended March
6 31 were presented for review. The picture previously
7 presented continued substantially unchanged.

8 The net shortfall from budget widened during
9 March, but the projections for the four years still indicate
10 an approximate break even result.

11 The balance sheet reflects our extremely
12 healthy financial condition with more than ample funds to
13 meet operating requirements.

14 A substantial portion of surplus funds which
15 have been built up over recent years are invested in money
16 market securities which, as you know, have produced good
17 returns, in excess of our budgeted expectations.

18 You also have in your materials financial
19 statements for the Division for CPA Firms, the AICPA
20 Foundation, and the Benevolent Fund.

21 The Benevolent Fund Board of Trustees met
22 yesterday and reviewed 29 current cases where the Fund is
23 providing assistance in the form of grants and loans to
24 members or their families.

25 I am pleased to report that contributions

1 from members to the Benevolent Fund so far this year are
2 up about 30 percent from the preceding year, reversing
3 the downward trend that occurred from 1979 to 1980.

4 Mr. Chairman, that completes my report. I
5 would be pleased to answer any questions of the members.

6 Thank you.

7 CHAIRMAN KANAGA: You obviously answered them
8 all, Bill. The picture is one that has not been
9 unanticipated, moving towards a break-even point.

10 I was Chairman of the Planning and Finance
11 Committees for three years, and our projections two years
12 out in each of those years was for a break-even, and I am
13 delighted that I was finally in a position to make sure some
14 of those predictions came true. Maybe delighted is the
15 wrong word.

16 The next item that I would like to take up
17 is to move to the -- to that item noted as designation of
18 committees authorized to issue Standards under Rule 204
19 and to interpret General Standards under Rule 201.

20 There is in your kits an explanatory
21 memorandum, the substance of which we discussed at the
22 Regional Meetings of Members of Council in March.

23 We have moved this forward on the Agenda,
24 because we understand there is concern by some members on
25 this matter, most particularly with regard to MAS authority.

1 We therefore wished to have Institute and
2 Committee Members present to discuss the matter.

3 The memo gives a very brief history of the
4 adoption of Rules 201 and 204, and the Board of Directors
5 is recommending that Council authorize those Committees
6 which it has already designated as bodies to promulgate
7 Standards under Rule 204, to be granted authority also under
8 Rule 201 to interpret General Standards with respect to
9 their areas of responsibility.

10 Included in the background material is the
11 text of Rule 201, General Standards, Rule 202, Auditing
12 Standards, Rule 203, Accounting Principles, and Rule 204,
13 Other Technical Standards.

14 You will also find included in this material
15 the 1978 and 1979 Resolutions of Council authorizing the
16 MAS Executive Committee, the Accounting and Review Services
17 Committee, and the Auditing Standards Board to issue
18 enforceable Standards under Rule 204.

19 Finally, there is a proposed Resolution which
20 would authorize the Accounting and Review Services
21 Committee, the Auditing Standards Board and the MAS
22 Executive Committee to interpret General Standards under
23 Rule 201.

24 That Resolution provides as follows, and I
25 will read it:

1 WHEREAS: The membership of the
2 Institute has adopted Rule 201 of the Rules
3 of Conduct which authorizes the Council to
4 designate bodies to interpret the General
5 Standards contained therein, it is hereby

6 RESOLVED: That the following are
7 hereby designated by the Council to
8 interpret the application of the General
9 Standards contained in Rule 201 to their
10 respective areas of responsibility:

11 Accounting and Review
12 Services Committee.

13 Auditing Standards Board,
14 Management Advisory
15 Services Executive Committee.

16 FURTHER RESOLVED: That the
17 authority of the aforementioned Committees
18 to interpret the application of the General
19 Standards contained in Rule 201 shall not
20 affect the responsibility of the Professional
21 Ethics Division under Section 3,6.2.2 of the
22 Bylaws to interpret the Code of Professional
23 Ethics.

24 AND FURTHER RESOLVED: That any
25 Institute Committee or Board now or in the

1 future authorized by the Council to issue
2 enforceable Standards under Rule 204, or
3 to interpret the General Standards under
4 Rule 201 must observe an exposure process
5 seeking comment from other affected Committees
6 and Boards, as well as the General
7 Membership, before adopting Standards under
8 Rule 204 or interpreting General Standards
9 under Rule 201.

10 On behalf of the Board of Directors
11 may I have a motion that Council adopt the Resolution which
12 I have just read?

13 A MEMBER: So moved.

14 CHAIRMAN KANAGA: Want a second?

15 A MEMBER: Second.

16 CHAIRMAN KANAGA: I guess I must have been
17 droning on.

18 The floor is open for discussion.

19 Hearing no demand for the floor, are you
20 ready for the question?

21 A MEMBER: Question.

22 CHAIRMAN KANAGA: I will ask for a voice
23 vote on the Resolution which is as follows, and do I have
24 to read it?

25 MR. SCHNEEMAN: I don't think so.

1 CHAIRMAN KANAGA: I can skip a page and a
2 half.

3 The Resolution which I just read, all those
4 in favor? All opposed by like sign. The ayes have it.
5 Resolution is declared adopted.

6 We moved a little faster than we had
7 anticipated. Why don't I proceed?

8 I would now like to take up the Report of
9 the AICPA Effective Legislation Committee.

10 When the Effective Legislation Committee
11 was established by the Council, an undertaking was made
12 to report to the Council annually on activities of that
13 Committee.

14 As has been our practice in the past, four
15 non-staff members of the Board of Directors serve on the
16 Committee and are assisted by two other Board members, the
17 President and the Secretary.

18 Our Vice President-Government Relations,
19 Ted Barreaux, is also a member of the Committee, and gives
20 us valuable assistance in evaluating or even proposing
21 requests for funds.

22 We have collected \$70,192 to date of which
23 \$62,923 was generated in our original solicitation in 1977.
24 We have disbursed \$43,795.

25 The Committee believes that we should have

1 another solicitation to assure that we are in a continuing
2 position to respond to Congressional candidates, and we
3 will be mailing that solicitation shortly.

4 Are there any questions? Okay.

5 I am told that the coffee is ready out there.
6 Why don't we reconvene at -- why don't we reconvene at
7 10:30, and that will give us time for two cups.

8 Before we break, Stan Scott asked me to
9 announce that all golfers should pay their \$5.00 entry
10 fee for this afternoon's tournament at the Registration
11 Desk before the end of coffee break.

12 The make-up of team assignments will be closed
13 off at that time.

14 Thank you.

15 (Whereupon, the morning coffee break was then
16 taken.)

17 CHAIRMAN KANAGA: If you'll take your seats
18 we'll reconvene, Ladies and Gentlemen.

19 Next item on the Agenda is the report of
20 the Minority Recruitment and Equal Opportunity Committee.

21 We have spotlighted in past Council Meetings
22 the work of Committees who labor in areas that are not
23 readily visible to most of us, but whose charge is of
24 significant import to the overall mission of the profession.

25 Last year at this time we heard from the

1 Chairman of the American Institute Benevolent Fund.

2 This year I am pleased to introduce
3 Clarence Davis, Chairman of the Minority Recruitment and
4 Equal Opportunity Committee, who will up-date Council on
5 what his Committee is doing to advance opportunities for
6 minorities in the profession.

7 Clarence.

8

9 C L A R E N C E D A V I S

10

11 MR. DAVIS: Good morning. Let me tell you
12 what a pleasure I have in being with you today to share a
13 few thoughts with respect to Minority Recruitment and Equal
14 Opportunity.

15 In 1969 AICPA along with Council authorized
16 that we would now integrate the accounting profession and
17 make it a real world instead of one of fantasy.

18 Along those lines they appointed or authorized
19 a Minority Recruitment and Equal Opportunity Committee and
20 also established the Accounting Education Fund for
21 Disadvantaged Students.

22 The purpose of all of this was to accomplish
23 three things:

24 One. To initiate interest by qualified
25 minority men and women in the accounting profession.

1 Two. To provide the economic resources to
2 push them through the higher levels of learning.

3 And the third, to integrate them in the
4 accounting profession as full-fledged professionals.

5 Along those lines, certain programs were
6 established by the Minority Recruitment and Equal Opportunity
7 Committee, and I'd like to give you some insight into those
8 programs.

9 We had the Scholarship Fund, the Faculty
10 Seminar, we had the doctoral fellowships, career development
11 seminars, and what we call miscellaneous, for lack of a
12 better word right now.

13 The Scholarship Fund really started in 1970.
14 In 1970, 40 recipients received in excess of \$28,000 to aid
15 them on their educational road.

16 The awards have grown from \$40,000 in 1970 to
17 approximately \$216,000 in 1980.

18 Over a period of ten years we have helped
19 over 1,000 minority students with grants in total of
20 \$1,289,000.

21 That's important, because the first concept
22 of initiating and stimulating minority women and men in
23 accounting and pushing them through the colleges has been
24 somewhat accomplished, and we all should share some pride
25 in that.

1 This should give you a little insight as to
2 how the Scholarship Fund works. We require a minority men
3 and women to have high academic backgrounds and a strong
4 financial need. Those two requirements are reviewed by
5 a Scholarship Task Force selected in three groups. Each
6 individual must be reviewed three times before he's awarded
7 a scholarship.

8 I can assure you we monitor the Accounting
9 Education Fund for Disadvantaged Students, because we want
10 to make sure we have the very best coming into the
11 profession.

12 One of our next programs is the Doctorial
13 Fellowship. In order to keep the pipeline going, one
14 must clearly establish the required educators to move
15 the system along. The Doctorial Fellowship Program was set
16 forth to accomplish this.

17 What happens or how it works is as follows:
18 An individual who has been teaching in the minority schools
19 is selected to go forward to obtain the Doctorial Degree.
20 That individual is required, upon completion of the Doctorial
21 studies, to spend three years teaching at a minority
22 institution.

23 In 1975, '76 and '77 HEW supported this
24 program. At the end of 1977 this support was discontinued,
25 and the burden of this program has fallen directly on the

1 Accounting Education Fund for Disadvantaged Students.

2 I need not tell you with our present
3 administration in power, that there will be no governmental
4 funds forthcoming, and therefore the burden will only
5 increase in the succeeding four years.

6 With respect to the Career Development
7 Seminar, we are proud to have held two or those, one in May
8 of 1978 and one in May of 1979, to address the problems of
9 minorities in the profession.

10 In May of 1978 the top 37 firms here in the
11 United States were asked to send five representatives to
12 attend that conference.

13 Out of those 37 firms, they sent total
14 participants of 49. It was clear at that seminar that the
15 problems that existed in the Accounting Profession was not
16 one of entry level, of getting the opportunity, because
17 the Scholarship Fund had clearly led the way for those
18 individuals to get on the first rung of the ladder, it was
19 clear from that seminar that the problems were at the
20 Equal Opportunity level in terms of advancement, in terms of
21 mentors, in terms of firms extending their hands out, not
22 giving up for the past, but removing those obstacles for
23 the future.

24 This particular conference was reaffirmed
25 when we had the second conference in May of 1979.

1 I might add that the first conference was
2 directed at Blacks, the second at Hispanics. Those two
3 groups make up the largest minorities in the accounting
4 profession, of course, excluding women, who have made, I
5 think -- I won't say substantial, but have made greater
6 strides than those groups.

7 The second conference, as I said, reaffirmed
8 those feelings that were expressed in the first.

9 It is interesting to note that while we do
10 not have the problem of attracting individuals in the
11 accounting profession, there is a greater problem with
12 respect to retention and mobility. I'd like to leave that
13 for a moment, but I can assure you I will come back to it.

14 I'd like to move on to the Faculty Summer
15 Seminar.

16 In 1971, the Faculty Summer Seminar had
17 14 participants. The Seminar was developed principally
18 for faculty members of minority schools to be brought
19 together for an up-date on technical and professional
20 developments, and to provide an area of communication
21 between their peers or amongst their peers.

22 From 1971 to 1980, the list of participants
23 has grown from 14 to 73 representing 63 minority schools.
24 These individuals come principally from the South and
25 Southwest.

1 One of the critical areas with respect to
2 the Faculty Summer Seminar is that these educators must go
3 back and become our link to the students, expressing simply
4 that we offer the opportunity in accounting to enter it, we
5 offer the opportunity to grow in accounting, and we offer
6 the opportunity to succeed in accounting.

7 This particular seminar has ben very
8 successful. We are holding the eleventh seminar the week
9 of May 25th through 29th in Memphis, Tennessee.

10 I assure you that it's a worthwhile seminar,
11 and I hopefully would like to extend an invitation to you,
12 but because we are under severe funding restraints, I can
13 only give you my word that it's doing the correct job, and
14 as an accountant, I guess you'll have to believe me.

15 Let's talk further with respect to other
16 programs.

17 Staff members of the AICPA are involved in
18 going to various locations throughout the United States to
19 talk about the opportunities in accounting. Within the
20 past year some 30 odd trips were made. In addition to that,
21 each member of the Minority Recruitment and Equal Opportunity
22 Committee is required to visit a school in his local area to
23 speak to minority students, telling of the opportunities
24 in the accounting profession, and the Minority Recruitment
25 Committee en masse every year goes to one minority school to

1 stimulate the students, to look at the programs, to see if
2 we can be of any help in terms of uplifting the quality of
3 that program, and furthermore, to look upon those educators
4 as our communicative link to the students.

5 Our past visit was at Howard University in
6 the City of Washington, D.C. We spent a day touring
7 classrooms and talking to the accounting faculty, and it's
8 interesting to note that the accounting faculty came to us
9 afterwards and said, please, give us help in terms of
10 evaluating our programs, if you feel there's a need to
11 correct something or upgrade it, help us. We are ready to
12 initiate any suggested action that you may bring about.

13 I'd like to sort of step back for a moment,
14 if I can, and talk about the results of what we have done
15 as accountants over the last 11 years since that mandate
16 came down to integrate the accounting profession.

17 It is significant to realize that in 1969
18 there were 700 minorities in the public accounting area,
19 minorities being Hispanic, Blacks, Asian and American
20 Indians. We have traveled some 11 years, and that number
21 now rests at approximately 2400. We have not been
22 successful in retention and mobility.

23 I'd like to point out also in particular, if
24 I may, the Blacks, for which I can readily identify with,
25 they have existed as, at one point, eight percent of public

1 accounting employment over the last two years, a percentile
2 which none of us should take any joy in.

3 It is clear that we have met the challenge
4 of introducing those minds, those fertile minds into the
5 opportunities of accounting. It is clear that we have
6 provided funds to aid them on their way, and I might add
7 that the Accounting Education Fund for Disadvantaged
8 Students, while being supported by the AICPA, the Public
9 Accounting Firms Corporations and individuals, need more
10 funds to do the job.

11 The third matter of what we have done and not
12 fulfilled the need is the Equal Opportunity. I think simply
13 put and not to be redundant, those of us that can look at
14 a four-fold increase in terms of minorities or less than a
15 four-fold increase in 11 years can look merely at inflation
16 and see that it has increased substantially more than that
17 in terms of percentile.

18 We are in a country where Equal Opportunity is
19 spoken about; however, in some areas it moves a little
20 slower.

21 To sort of bring you about full circle, I
22 wish to give you a few thoughts in terms of what Task Forces
23 we have within the Committee and what they do in particular.

24 We have a Standards in Employment Practices
25 Task Force. This Task Force was responsible for the Career

1 Development Seminars in both 1978 and 1979. They were also
2 responsible for a change in interpretation of the Professional
3 Code of Ethics, Rule 501, 501 back in 1978, saying that any
4 act against a person because of ethnic background was an act
5 discreditable to the profession.

6 We have a Task Force called Commitment. This
7 particular Task Force looks to new areas as well as
8 evaluating old to determine how far we have come along the
9 trail in terms of total integration.

10 I have already mentioned to you the
11 Scholarship Task Force, and of course I have mentioned to
12 you the Faculty Summer Seminar Task Force.

13 I think it more than appropriate to so state,
14 that the Committee has clearly evidenced its commitment to
15 producing more minorities in the accounting profession.

16 In March of this year the Committee was
17 successful in placing in a large minority magazine, Ebony,
18 to be exact, publicity talking about the work of the
19 Committee and the Institute with respect to minorities in
20 accounting. One of the comments made at our Committee
21 Meeting, which I'd like to share with you, was simply that
22 if we had tried to put this article in Ebony Magazine ten
23 years ago, we would have found it very hard to fill up two
24 pages. Merely from putting the article in the magazine
25 this current year we were able to fill up four and a half

1 pages, and I received a number or irate phone calls from
2 individuals who were not mentioned in terms of well, I'm in
3 accounting and I have done very good things.

4 I'd like to leave you with these thoughts:
5 The job in terms of integrating accounting is not over. I
6 think more importantly, one must directly deal with
7 retention and mobility.

8 I'd like to thank you personally, because I
9 think I am a direct result of the mandate given in 1969 to
10 integrate the profession. I came out of college in 1967,
11 pretty much an old individual because I was in the Marine
12 Corps for four years, and at the time I came out of school
13 they said, son, get your CPA Certificate and move on.

14 I'd like to share with you that in 1979 I
15 was named a partner in my firm, something that I had dreamed
16 of but not thought capable of in my lifetime, so if you can
17 produce one of me, and I can assure you there are others, I
18 think it's equally rewarding to put more funds in this area,
19 to produce more highly qualified minority CPA's.

20 Thank you.

21 (Applause.)

22 CHAIRMAN KANAGA: Thank you, Clarence. You
23 presented quite a challenge to all of us in the profession.
24 We have a long way to go.

25 The next item on the Agenda is a report of the

1 Small Business Committee.

2 One of our newest Committees formed by the
3 Institute is this Small Business Committee which has the
4 challenging task of defining ways in which the profession
5 can be of greater assistance to small business.

6 We are extremely fortunate in having Ivan
7 Bull as the first Chairman.

8 I have asked Ivan to give us a brief report
9 on what the Committee is all about and what its plans for
10 the future are.

11 Ivan.

12

13 I V A N B U L L

14

15 MR. BULL: Thank you, Bill. With your time
16 problem, I have been searching for some controversy to help
17 you out. The nearest I can come, and it really won't work
18 out, our partners' meeting is next week, and I hope that I
19 can reallocate a bit from that meeting to this. I thought
20 I'd stand over here in front of the Illinois Delegation in
21 case you want to raise some controversy, we'll try to help
22 out with your time.

23 If we believe what we read and hear, and I
24 always do, the day of small business has arrived, and that's
25 probably because we are beginning to realize that jobs in our

1 economy are vitally important for many social and economic
2 reasons, and we are also beginning to realize that small
3 business provides most new jobs.

4 President Reagan knows that, he mentioned it
5 in his recent economic address to Congress. The AICPA
6 knows it, it recognizes the importance of small business,
7 our Committee is evidence of that.

8 The small business issues that seem most
9 relevant for us to consider are taxation, capital formation,
10 governmental regulation and paperwork, business management,
11 employee incentives and disincentives, and procurement.

12 We tentatively plan to work on those issues.

13 Our Committee objectives were defined for us,
14 and bear in mind, like all good Committees, we are capable
15 of redefining a little bit as follows: The Committee should
16 monitor all Institute activities that are directed towards
17 assisting small business, to recommend where appropriate,
18 carry out programs to promote the success of small business,
19 and generally represent the Institute in matters affecting
20 small business.

21 The Committee will be directly responsible
22 to the Board of Directors. The Committee should put
23 particular emphasis on such areas as tax relief, and relief
24 from unnecessary governmental regulation or paperwork.

25 Accordingly it should, in conjunction with the

1 Washington Office, monitor proposed Legislation affecting
2 small business, the activities and programs of the Small
3 Business Administration, and the regulations of Governmental
4 Regulatory Agency as they affect small business.

5 In addition, it should work with stock
6 exchanges and other private sector groups engaged in promoting
7 small business.

8 The Committee should represent the Institute
9 at conferences concerned with small business, and evaluating
10 recommendations of the White House Conference Report.

11 It should also prepare utilization papers
12 for publication and take appropriate public relations steps
13 to see that the Institute is identified as a responsible
14 advocate for small business.

15 We have an excellent groups of members, Bill
16 Larson, Tom Brock who is a member of Council, in fact I think
17 Tom is leaving this Conference early to receive some National
18 recognition for his work on small business, Dick Gremmins
19 in Colorado, Paul Menton, Ohio, Herb Haber, New York, Bruce
20 Harper, also a member of Council from Houston, Art Dreking
21 from Durham, Jay Cubic, Lester McKeifer from Chicago, and
22 Tom Watson from Cleveland were all practitioners. We
23 recommended for the incoming Chairman that he consider
24 appointing an academic and that a small business entrepreneur
25 might join our group.

1 We are absolutely convinced that small
2 business, the entrepreneur, is about the greatest thing
3 since apple pie. We are not anti-big business at all,
4 because we want the product of massive capital and
5 technology, but we believe that innovation, the service
6 orientation, the quality alternative and the new jobs are
7 disproportionately provided by small business.

8 The fact that small business purchases a lot
9 of accounting services from us has absolutely nothing to do
10 with our love affair with small business entrepreneurs.

11 Our Committee's been in gestation about nine
12 months, and not an awful lot has happened, and we are
13 impatient people, so it kind of bothers us, but we haven't
14 aborted either. We have thrashed around for three months
15 and are beginning to understand our mission and beginning to
16 see an approach that seems likely to deliver benefits.

17 It's not easy for a new committee to get
18 started. It is an interesting assignment to start a
19 committee.

20 We haven't solved all of the problems of small
21 business, at least we haven't if the letters we get from our
22 clients are indicative of the real world.

23 Our mission involves the entire Institute, not
24 just our small groups.

25 Programs that promote the success of small

1 business for the most part will be programs. of other
2 Institute Committees. Favorable public relations, if
3 they're earned, will accrue to those who perform.

4 We intend to work with and through the other
5 Committees and directly involve ourselves in a very few
6 issues, or directly in a very few problems.

7 We have been described as advocates for
8 small business with regards to the AICPA activities. We don't
9 see ourselves as an adversarial type of omudsman, but as
10 a friendly man, and so we first intend to monitor committee
11 activities to see that the concerns of small business are
12 considered, all of them, so to monitor is our first level
13 of activity.

14 The next activity level is to advise. If
15 we discern an omission or action unnecessarily inconsistent
16 with small business, we shall probably advise the
17 appropriate committee about the matter that we'd like to
18 see considered and perhaps seek an alternative approach on
19 a particular matter.

20 Our third action level will be to actively
21 advocate. We might advocate a tax policy, for example,
22 before our Tax Division, but since we want the AICPA to
23 speak with one voice to the outside world on tax matters, we
24 would intend to carry our advocacy no further than to the
25 Senior Committee which has the authority to speak for all of

1 us, and using that example, the Tax Committee, they have
2 already been very cooperative.

3 We expect to have many other conversations
4 in support of our relationship with this Committee.

5 By contrast, if we identify an action which
6 we believe would promote the success of small business not
7 within the jurisdiction of a Senior Committee, we would,
8 with Board approval, advocate such a position as a spokesman
9 of the Institute.

10 So we have defined our role as to monitor,
11 to advise, to advocate, these three levels of activity,
12 and with small business in mind we will monitor the results
13 of the Accounting and Review Services Committee, Auditing
14 Standards Board, Computer Services Executive Committee,
15 Federal Taxation Division, MAS Executive Committee, SEC
16 Regulations Committee, Federal Government Regulations
17 Committee and others.

18 Outside the Committee we hope and expect that
19 we will be able to maintain liaison with at least the Small
20 Business Administration, especially now that one of our
21 members has been appointed to an important role with that
22 Governmental Agency.

23 We have taken an inventory of sorts of the
24 work done by most Institute Committees, and the list of
25 activities is surprisingly long and fairly complete. That

1 was not our first reaction. We had the opposite impression,
2 and that may not be your impression, but we have discovered,
3 as we always knew, I guess, but we discovered that the world
4 that is hostile to small business was not invented at the
5 AICPA, more likely it was invented in the Halls of Congress
6 or Regulatory Agencies or some other spot.

7 It would be far more hostile we believe but
8 for the already existing activities of the Institute.

9 We seek the help of all Council and Institute
10 members to help us, our National Organization, to help and
11 develop support for small business.

12 Thank you.

13 (Applause.)

14 CHAIRMAN KANAGA: Thank you, Ivan.

15 The Report of the Professional Ethics
16 Executive Committee.

17 At the Regional Meetings of members of
18 Council which were conducted earlier this spring, the work
19 of one committee, engendered more spirited discussion than
20 any other item on the Agenda. That Committee is the
21 Professional Ethics Executive Committee, and the items
22 which members of Council focused on were the Committee's
23 exposure draft interpretation on self-designation of
24 specialists and the implementation of the Committee's Program
25 to review work done by members of the profession on Federal

1 grant audits.

2 We have asked Frank Whitehead, Chairman of the
3 Professional Ethics Executive Committee, to report to the
4 Council on these projects and any others which the Executive
5 Committee might be dealing with and feel that it would like
6 to bring before this body at the present time.

7 Frank, you have a considerable period of time
8 to do that. I'm not asking you to fill all of the next two
9 hours.

10 F R A N K W H I T E H A N D

11
12
13 MR. WHITEHAND: Your Chairman promised me
14 40 minutes prior to tee-off time and lunch, and I accepted
15 his invitation on that assumption, and it seems as though
16 I will agree to stay here for about as long as necessary.

17 I am pleased to be here with you today. This
18 is the first opportunity I have had to observe the workings
19 of those to whom I report, and so I am pleased to be here,
20 but I should also share with you the fact that since this
21 was my first outing, the very capable staff of the
22 Institute arranged to take me aside this morning for
23 breakfast, to brief me, to make sure that I didn't perform
24 any faux pas.

25 What they didn't tell me was that only the

1 people from the Ethics Division end up in blue suits, and
2 all I could say is that that is probably proper, if not
3 necessarily ethical.

4 I would like to begin by just briefly
5 reminding you that the Ethics Division works with the
6 operating parts of the Code of Ethics. At the present time
7 the working part of the Code consists of 13 Rules of
8 Conduct that have been adopted and amended from time to time
9 by vote of the membership.

10 We have 24 interpretations of the Rules of
11 Conduct. These have been issued and amended from time to
12 time by the Professional Ethics Division Executive Committee,
13 and I think there are about 130 rulings at the present time
14 that explain how the Professional Ethics Division applies
15 the Rules of Conduct in specified factual situations.

16 I hope none of you will go audit that count
17 of the rulings. That was just kind of my quick rundown.

18 Now, the important thing about the Code of
19 Ethics is that it has changed from time to time, and it
20 continuously is changing.

21 There are three reasons why it changes. Our
22 collective judgments of what is right and wrong in our
23 relationships with each other and in our relationships with
24 other elements of society are constantly changing. At the
25 same time, the judgments of other elements of society

1 regarding what is right and wrong in those relationships
2 changes, and then frequently the law of the land or the
3 manner in which it is interpreted and enforced changes, and
4 these three changes together mean that we can not have
5 a static Code of Ethics, even though you would think that
6 the word itself would imply basic judgments on what is right
7 and wrong that are eternal, and I assure you that that
8 doesn't work.

9 Now, although we may probably agree that
10 changes are necessary from time to time, proposals for
11 specific changes are usually not without debate, as we
12 may find out today, and it is with the attitude that we
13 can and must debate proposals for changes in a sensible
14 and rational manner that brings me here today.

15 What we can not afford to do, I think, is
16 ignore matters that should be attended to, because ignoring
17 the need for change when a need really exists can only
18 destroy any effectiveness that the Code of Ethics may have.

19 In that vein, the Professional Ethics
20 Division is at the present time seeking your reasoned
21 comments now, also the comments of other members, firms,
22 state societies and others, about three proposals for
23 changes in the Code or the manner in which it is administered.

24 Each of these proposals is an attempt to
25 respond to changes that appear to already have occurred in

1 the environment in which public accounting is practiced.

2 I assure you, they are not efforts by the
3 Professional Ethics Division to stir things up or to induce
4 changes in the environment.

5 If ultimately adopted, these proposals will do
6 three things: One. Change the existing interpretation of
7 the Code that proscribes self-designation as an expert or
8 specialist. Secondly, they would add an interpretation that
9 would make failure to fulfill obligations undertaken in
10 performing audits of Government Grant Programs an act
11 discreditable to the profession, and third, they would modify
12 the confidential status of the results of certain Ethics
13 Division Investigations.

14 I'm going to spend some time on all three of
15 those, but probably I'm going to spend more time on
16 self-designation as an expert or specialist.

17 Now, at the present time the proscription
18 against self-designation as an expert or a specialist is
19 contained in an interpretation of the Code, not in one of
20 the Rules.

21 Interpretation 5024 reads: "Claiming to be
22 an expert or specialist is prohibited, because an AICPA
23 Program with methods for recognizing competence in
24 specialized fields has not been developed, and self-
25 designation would be likely to cause misunderstanding or

1 deception."

2 Now, this is an interpretation of Rule 502,
3 and Rule 502 says simply, "A member shall not seek to obtain
4 clients by advertising or other forums of solicitation in
5 a manner that is false, misleading or deceptive."

6 As I understand it, Rule 205 and interpretation
7 5024 came into the Code around 1979.

8 I am told that at that time there was
9 considerable discussion within the Institute of developing
10 a program for recognizing competence in specialized fields,
11 and in fact a Special Committee on Specialization had
12 concluded in 1978, and I will quote, "That there is a need,
13 both a public need and a need on the part of the profession,
14 for a program of accrediting CPA specialists. Perhaps the
15 most compelling evidence of that need is the wide-spread
16 de facto specialization already existing in the profession
17 presently based only on self-declaration by the individual
18 or his firm."

19 To date, as far as we can determine, nothing
20 has been done and nothing has been seriously proposed to
21 develop an AICPA Program to recognize competence in
22 specialized fields. I'll come back to that matter later.

23 Now, if adopted in its present form, the
24 proposed modifying interpretation will provide, first, that
25 a member or his firm may self-designate as a specialist or

1 as an expert through advertising or other forms of sollicita-
2 tion in a manner that is not false, misleading or deceptive.

3 Secondly, that a decision to self-designate
4 as a specialist is judgmental, but that a member must be
5 prepared to substantiate the basis for such self-designation
6 by presenting evidence of the appropriate mix of education
7 and experience.

8 Third. The interpretation includes guidelines
9 that a member may use to demonstrate that he or she has the
10 appropriate mix of education and experience, but a member
11 must also demonstrate that self-designation is not false,
12 misleading or deceptive without reference to the guidelines.

13 And fourth, that self-designation as an
14 expert implies a higher degree of competence than
15 self-designation as a specialist.

16 Now, in the transmittal letter, with it we
17 have sought reasoned comments on essentially two issues.
18 Should the ban on self-designation be lifted, and secondly,
19 will the guidelines likely be useful.

20 In framing your comments, I would like to urge
21 respondents to remember that calling oneself an expert or
22 specialist is the only type of self-laudatory statement that
23 is specifically proscribed on the presumption that it is
24 deceptive.

25 Existing interpretation 502-3 permits

1 self-laudatory statements that are based on verifiable
2 facts.

3 Now, many of you have asked, why did you
4 come forth with this proposal? In developing this proposal,
5 the Professional Ethics Division considered a number of
6 things, and I am going to talk to you about five of them.

7 First of all, we had the conclusions of a
8 Special Committee on Guidelines for Specialties which
9 reported in 1979. In their transmittal letter this group
10 concluded as follows: We have concluded that individual
11 CPA's and CPA Firms should be permitted the opportunity to
12 self-designate as specialists if their professional staffs
13 have attained the additional educational training and
14 experience qualifications fundamental to specialist status.

15 This report was referred to by the Board of
16 Directors to the Professional Ethics Executive Committee,
17 "to be held pending further experience with the application
18 of Rule 502 and interpretation 502-4."

19 The second thing that we considered was the
20 changing legal and business environment in which members in
21 public practice and their firms' practice has resulted in
22 fundamental change in the manner in which CPA's make the
23 availability of their services and their unique skills known
24 to prospective clients.

25 We do not believe that members can be expected

1 not to communicate in one manner or another their unique
2 skills to the public and to prospective clients, particularly
3 when these are the very matters that may be of most
4 interest to the public and to prospective clients.

5 The next thing we considered is our own problem
6 in the Professional Ethics Division, and that is we have
7 evidence that the ban on self-designation appears to no
8 longer enjoy that broad spectrum of support necessary to
9 make it enforceable.

10 I think we must all recognize that in dealing
11 with the Code of Ethics, support for a rule by a bare
12 majority is not enough. A Code of Ethics must have
13 wide-spread support.

14 It appears that the ban on self-designation
15 may no longer have that support.

16 For example, the potential investigations
17 that we now have facing us, and those that might lead to
18 disciplinary actions, has frankly grown beyond our existing
19 resources to handle in a good manner.

20 Then we have our own literature. For
21 example, we have an article in the document called "The
22 Practicing CPA" and AICPA publications for the local firm,
23 which includes this particular bit of advice: "All firm
24 brochures should present the firm's background in summary
25 form. They should list principal members and describe their

1 training, experience and specialty. Second. Describe the
2 services that the firm performs and the type of services
3 in which it specializes," and then there are some other
4 things, including pictures, and that then goes on to say,
5 "This brochure can give bankers, attorneys, clients and
6 prospective clients a thorough understanding of the services
7 the firm offers."

8 With help like that, we in the Professional
9 Ethics Division don't need any enemies, I'll tell you.

10 Then we have the article that the Journal
11 of Accountancy ran entitled, "Training Computer Audit
12 Specialists".

13 In this environment, we did as we always
14 do in the Professional Ethics Division, and that is
15 sought -- we sought legal advice, and we obtained it from
16 the Institute's very expensive attorneys, outside
17 attorneys, I might add.

18 Essentially I can sum up their advice in
19 one quotation from their letter to us:" Under present
20 circumstances, it would be difficult, if not impossible,
21 to enforce the prohibitions of Interpretation 502-4," and
22 they analyzed the reasons for this conclusion in great
23 detail, and essentially it boiled down to three reasons.

24 First of all, there is no ongoing program
25 with methods for recognizing competence in specialized

1 fields, and that was the reason cited in the Interpretation
2 for having it.

3 Secondly, they pointed out that the
4 Interpretation in fact goes well beyond the scope of the
5 Rule. Supposedly the Interpretation tells us what the
6 Rule says, and here we have effectively said, we have
7 legislated.

8 Thirdly, efforts to enforce the ban will
9 likely invite an antitrust challenge which we can not win.

10 So essentially, what the Professional
11 Ethics Division was faced with was a no win situation.

12 We have a ban that very many people are not
13 abiding by, and we are told by legal counsel that we can't
14 enforce it anyway.

15 So what did we consider? What were the
16 alternatives that we might consider?

17 Well, the first thing that came to mind was
18 some sort of an indifferent enforcement program. There
19 are a number of ways we could accomplish this.

20 We could use the old hear no evil, see no
21 evil, speak no evil approach, just ignore everything.

22 Secondly, we could initiate investigations
23 against the most blatant offenders, and then sort of let
24 them fester along in the process as long as possible, that
25 being sending them out to the State Societies, then never

1 asking any questions as to what happened.

2 Frankly, that kind of an approach only breeds
3 contempt for our Ethics Code, and it is an approach that I do
4 not believe any members of the Executive Committee today
5 would contenance.

6 Second of all, we probably could have gone
7 to the Board of Directors and suggested that we needed a
8 bigger budget -- where's our President, he'd be happy for
9 that -- and seek to vigorously enforce the present
10 proscription, but neither of these types of enforcement
11 programs will -- indifferent or vigorous, we faced the
12 constant probability of a legal challenge, and let's face
13 it, even if the results were good and nobody challenged us
14 legally, even if we finally convinced everybody that if you
15 call yourself or your firm experts or specialists, we are
16 going to hall you before the trial board, what would that
17 really accomplish? The clever would certainly inevitably
18 find ways to communicate their specialties and their
19 expertise to prospective clients and to the public.

20 For example, we could always visualize the
21 ad, I think, that said that our firm has 25 people devoted
22 exclusively to working with prospective clients and clients
23 on their problems as members of this or that industry. We
24 have spent three billion dollars studying how firms can
25 improve their internal accounting control. Let our corps

1 of trained professionals help you.

2 The possibilities are enormous. Nobody has
3 used the word specialists, nobody has called themselves an
4 expert, but we have the unwary getting trapped, and the
5 clever do not, is what it amounts to.

6 Of course we came back to the question of what
7 about an AICPA Accreditation Program. Of course such a
8 program would be well beyond the Ethics Division, but we
9 hesitated to talk about that or to recommend it for a
10 couple of reasons. Maybe these were the same reasons that
11 the Board of Directors considered back in '78 or '79.

12 First of all, it would be enormously costly.
13 It would require a tremendous cost to develop and administer
14 such tests that might be necessary, and then secondly, under
15 the present legal environment, we also run the risk that we
16 then have two kinds of specialists and experts, those that
17 are accredited by the AICPA and those who on the basis of
18 their own background self-designate.

19 We are not really sure, I think that in the
20 kind of environment in which we practice, in which the needs
21 of clients and prospective clients are constantly changing,
22 that any massive testing program could constantly keep up
23 with the changes that are likely to occur in the need for
24 specialists or experts.

25 So those are the considerations that we had on

1 that program.

2 Now, finally we came to our own problem of
3 putting out a separate, a new interpretation, and we debated
4 within both our Independence and Behavioral Subcommittee
5 and within the Executive Committee a number of things, and
6 you have the result.

7 One of the things we considered was to omit
8 the specific guidelines, and as I mentioned earlier, we would
9 hope that you would take the opportunity in your letters of
10 comment to comment specifically on that point.

11 Another alternative to an Interpretation, and
12 one that we could give serious consideration to and did is
13 simply to delete the existing Interpretation and not replace
14 it with anything and let Rule 502 which prohibits false,
15 misleading and deceptive advertising or solicitation apply.
16 You might wish to comment on that point as to what you think
17 of that.

18 That's about what I'm going to say on
19 specialties and expertise.

20 I'd now like to turn to a couple other
21 changes that we had proposed and on which we are seeking
22 comments. These changes essentially resulted from the
23 development of a whole new market for auditing services by
24 CPA Firms, and that is the area of Federal Government Grant
25 Program Audits.

1 The Federal Government ordinarily requires
2 CPA's to undertake other obligations and responsibilities
3 in addition to those imposed by our own standards when
4 auditing Federal Grant Programs.

5 Now, most Governmental Agencies have active
6 programs to check the work and reports of CPA's who make
7 audits of these programs, and most Federal Agencies are
8 cooperating with the Institute in our efforts to discipline
9 both members who failed to abide by our standards, and also
10 they would expect us to do something about members who
11 undertake obligations but fail to live up to them, and we
12 have evidence that this happens occasionally.

13 Our particular Federal Government Program
14 has been described previously to Council, and I do not
15 propose at this point to talk to you more about it; however,
16 let me say that as a result of looking at a number of
17 situations, specific situations, changes are beginning to
18 flow from the program.

19 The Auditing Standards Board has taken the
20 initiative and has adopted certain Interpretations that have
21 been useful in this regard.

22 We currently have two proposals for comment.
23 One is an Interpretation of Rule 501, and I'd like to read it
24 to you. This is the proposed Interpretation. Engagement
25 for audits of Government Grants, Government Units and other

1 recipients of Government monies typically require that such
2 audits be in compliance with Government Audit Standards,
3 Guides, Procedures, Statutes, Rules and Regulations in
4 addition to Generally Accepted Auditing Standards. If a
5 member has accepted such an engagement and undertakes an
6 obligation to follow specified Government Audit Standards,
7 Guides, Procedures, Statutes, Rules and Regulations in
8 addition to Generally Accepted Accounting Standards, he's
9 obligated to fulfill such requirements. Failure to do so
10 is an act discreditable to the profession in violation of
11 Rule 501 unless the member discloses in his report the
12 fact that such requirements were not followed and the
13 reasons therefore.

14 Frankly, Ladies and Gentlemen, we need this
15 Interpretation to preserve our credibility in situations in
16 which our other existing Rules do not apply.

17 The second proposal growing out of our
18 Government Program deals with the confidentiality of the
19 results of certain Ethics Division Investigations.

20 To remind you, the Bylaws provide that the
21 Professional Ethics Division may in certain circumstances
22 issue administrative reprimand to members who stray from the
23 straight and narrow rather than to take the individual before
24 a Regional Trial Board; however, the Bylaws provide that
25 administrative reprimands are not to be published in the

1 CPA Letter or, I think the word is -- the words of the
2 Bylaws are, the principal membership journal of the
3 Institute.

4 The total confidentiality on administrative
5 reprimands is a feature of the Operating Procedures of the
6 Division and is embodied in the Joint Ethics Enforcement
7 Agreements that the Institute has with the State Society.

8 As you probably know, Trial Board decisions
9 to the extent that a member is found guilty are published.

10 Now, one of the significant purposes of our
11 looking at Government Audits is to try to improve the
12 communications between the profession and the Executive
13 Department so that we can get -- so that we can have
14 meaningful dialogues when problems arise.

15 I am sure that we now have had enough
16 dialogues that we all agree that there are misunderstandings
17 among Government Agencies as to what our technical
18 requirements are, and equally there are a number of
19 misunderstandings among the professional members of our
20 group as to what the specific requirements of Government
21 Agencies are, and we want to improve this dialogue.

22 So we have taken a number of situations, we
23 call them cases, although that gives perhaps an over
24 legalistic approach to the problem, but we have taken a
25 number of cases to investigate what Government Agencies

1 believe represents substandard work.

2 Our purpose in doing this is both to discipline
3 offending members, yes, but a more overriding purpose is to
4 be able to have a meaningful dialogue and point out to both
5 Government Officials and to the profession what should be
6 done on both sides to alleviate any of the strains that
7 might exist.

8 Now, what we are -- now, there are so few
9 of these cases frankly that we are looking at, that in
10 order to discuss issues, we almost have to discuss
11 individual cases. We are not making up any lists, but we
12 want -- what we want is the capacity to sit down with the
13 Agency of the Federal Government who provide the contracts
14 to do these audits and to be able to discuss individual
15 cases and to be able to point out our view of why something
16 was right or why something was wrong, and that's what our
17 confidentiality proposal is intended to do.

18 This is very controversial. It's now in the
19 hands of the State Societies, and we are seeking their
20 consent.

21 Those are the things we have at the present
22 time out for comments.

23 We are also considering some things -- we
24 don't want you to think that when we get done, either get
25 these issues resolved or get run out of town, that we are

1 done, because we had some other things that we are currently
2 working on.

3 In the changing environment in which we
4 practice, there are a number of things that have happened
5 that may cause us to have to propose some extensive
6 revisions in the Code. I'll refer to a couple of them.

7 There are many people today who are in effect
8 doing audits, issuing public reports who are not in the
9 practice of public accounting as defined in the Ethics Code,
10 and when these people or these men, and they're all very
11 probably very competent, when they do these audits, issue
12 reports saying that they have made an audit in accordance
13 with GAAS, they are not bound by the Technical Standards,
14 and we have nothing to go get them on other than the
15 General Rules on Integrity.

16 So we are addressing that problem. It is
17 terribly complex. It sounds like we could add one sentence
18 or delete one sentence, but the problem spread into all
19 kinds of ramifications and Government auditors. In terms
20 of members in the industry, we have got a lot of bases to
21 touch before we do anything on that, but we are working on
22 it.

23 The advent of review and compilation services
24 opens up some problems with respect to the Code. The Code
25 is written to protect auditing. Now we have a new form of a

1 test function.

2 Beyond those two items we have task forces
3 working on both recommendations to our group by the
4 Committee on Small, Medium and Small Sized Firms. The
5 first task force is working on the problem of below cost
6 fees, and the second is working on the problem of defining
7 misleading solicitation practices.

8 It would be very premature to even conclude
9 as to where we are going on those.

10 Finally, let me mention something that we
11 have learned through this activity the last couple of years.
12 That is that we have learned that some of our activities are
13 of interest to the membership. We have been going along
14 for years proposing Interpretations, and we are lucky if
15 anybody sends us a note. I think the Vermont Society,
16 mentioned that group earlier, has been very devoted in
17 sending us comments, but we haven't really received many
18 comments, and I think we have -- for years perhaps the
19 Division thought nobody cared, so our exposure processes
20 are not as developed as say those of the Auditing Standards
21 Board or certainly not as extensive as those of the FASB.
22 We know we are going to have to widen our exposure process.

23 Second of all, we know we are going to have
24 to increase our liaison with State Societies. The
25 third -- the second matter, we already have a program that

1 is going to be initiated, we have the Board's approval for
2 that, and that is to develop a series of Area Planning
3 Subcommittees consisting of two representatives of each
4 state that will meet twice a year. Each of these will meet
5 twice a year as a means by which we in the Professional
6 Ethics Division can communicate with people on State
7 Societies, and hopefully avoid dropping these block busters
8 that apparently you think we have done.

9 Mr. Chairman, that is the conclusion of
10 my report. I am willing to take any questions that anyone
11 might have.

12 (Applause.)

13 CHAIRMAN KANAGA: Why don't you just stand
14 there in front of that microphone in the event there are
15 questions. That was a most comprehensive and articulate
16 review of matters before the Ethics Executive Committee,
17 and matters which we spent time on in the Regional Meetings
18 and have spent a considerable amount of time in our Board
19 Meetings.

20 I think that it might be well if we started
21 with a discussion of your position on 502-4 and the exposure.

22 MR. WHITEHAND: That's experts and specialists.

23 CHAIRMAN KANAGA: Experts and specialists,
24 and the various alternatives which Frank outlined. One is
25 to leave it as it is, one is to put in your new exposure

1 proposal, third would be to drop what is in and not replace
2 it. Each one of those alternatives has its supporters.

3 Does anybody wish to start the discussion?

4 MR. KAUSCH: I think that first we really
5 should communicate to the --

6 CHAIRMAN KANAGA: What about using the
7 mike? I think the microphone is on there.

8 MR. KAUSCH: I'm Jim Kausch, Ohio Society.

9 First, I believe we should communicate what
10 our present rule is. We still have out here the Rule of
11 Conduct and the Ethics Rule which is not correctly stated,
12 and yet we have something which has been in existence for
13 approximately two years, but we are not enforcing, so we
14 should first of all know what it is that we have, and what
15 can we do with the tool that we have? I'm referring to
16 the fact that we still have the concluding sentence that
17 does not permit restriction of practice to a firm or an
18 individual, which, of course, is the beginning step for
19 designation under specialists without so stating.

20 MR. WHITEHAND: I gather that the question
21 goes to a sentence apparently that was in the Interpretation
22 at some previous time.

23 Used to state, a member or a member's firm
24 may indicate the services offered but may not state that
25 the practice is limited to one or more types of services.

1 Is that what you have reference to?

2 MR. KAUSCH: Correct, but it's still being
3 distributed.

4 MR. WHITEHAND: I understand that is still
5 in this book. It is not part of the Code, and frankly maybe
6 someone else may tell me when it was deleted. I do not
7 know.

8 MR. SCHNEEMAN: The sentence was deleted in
9 1979 in connection with the last change in the statement
10 of the Rule. The book is outdated. The copy of the
11 CCH statement of the Code and Interpretation does not have
12 the sentence in it, and our expectation would be that the
13 whole booklet will be reprinted if we go forward with the
14 Bylaw revisions.

15 MR. KAUSCH: What I'm really driving at is
16 that we have something that has working tool that has not
17 been utilized at all, and that the move towards designation
18 or specialization ought to be studied in depth by possibly
19 by the State Societies as well as the AICPA Division of the
20 Ethics Group.

21 We are simply premature in coming to
22 conclusions.

23 MR. OSTLUND: I don't know if there's a mike
24 way back or not.

25 CHAIRMAN KANAGA: Why don't you use this one.

1 MR. OSTLUND: Clayton Ostlund from Illinois.

2 I was on the Professional Ethics Committee at
3 the time the Interpretation was adopted, and the only reason
4 for adopting the Interpretation was a request from management
5 of the Institute. At that time they had a Committee working
6 to see whether or not guidelines could be developed for
7 accreditation. They said if we didn't have the Interpretation
8 in we'd really sandbag that Committee, so it went, it stayed
9 ever since. It's been there, and now they have abandoned,
10 I gather, because of the cost and other reasons, ever
11 developing any such guidelines.

12 MR. WHITEHAND: Thank you very much. As I
13 said, I'm sort of the new kid on the street as far as history
14 is concerned. I think I'd like to make one comment on the
15 thought, the point the gentleman back there was making, and
16 that is that we have been knocking on the door of the Board
17 of Directors for some time now to go -- to take an approach
18 quite akin to that that the Auditing Standards Board uses,
19 and that is to periodically mail to every member the changes
20 in the Ethics Code that have become effective.

21 Now, prior to doing that it seemed appropriate,
22 as the Board pointed out to us, to at least distribute on a
23 one time basis a new book that has the up-to-date existing
24 code in it, and then we can keep that up-to-date by periodic
25 mailings of the changes, but that's something that we haven't

1 had.

2 The current Code is shown in the CCH Service,
3 but that's another project that we are working on, and I
4 didn't say it because I don't think it's controversial
5 any more, I think it's going to happen.

6 MR. SCHNEEMAN: I may not have caught up with
7 you, Frank, but that publication is in Galleys, and in
8 this fiscal year will be printed and distributed to the
9 whole membership.

10 MR. WHITEHAND: This gentleman there.

11 MR. SCHMALTZ: Don Schmaltz, Michigan. I
12 would just like to raise the question about the terms expert
13 and specialist.

14 They seem to be used synonymously, and it would
15 seem to me that to hold oneself out as an expert requires a
16 great deal, or a higher level of achievement and standard
17 than one who is specializing in a given area, and I believe
18 it's confusing to use the terms together, whereas one may be
19 allowed to comment that they specialize in the area, which
20 means they are devoting a measure of time to that area, and
21 yet not be an expert in that area.

22 Would you care to comment on that, please?

23 MR. WHITEHAND: The question is a request for
24 me to comment on the difference between a specialist and an
25 expert.

1 I assure you we did debate long and hard on
2 that subject, and so the existing Interpretation, the
3 proposed Interpretation, the existing proposal does make
4 a distinction between specialist and an expert.

5 We have other -- I believe the prior Committee
6 that studied this thing used the terms synonymously. We
7 would appreciate your comments on that point, and we will
8 certainly consider them.

9 MR. DOPKINS: My name is Leonard Dopkins from
10 Buffalo, New York, and I am a member of the Professional
11 Conduct Committee of the New York State Society which has
12 furnished in writing a response to the exposure draft.

13 Among other things there's a paragraph in
14 that letter which states that in the opinion of that
15 Committee, the results of that limitation would be devastating
16 to the small and medium sized firm.

17 I also feel that way and have expressed my
18 views on behalf of my firm on what I hope was a reasoned
19 communication. I believe that expertise of the type you're
20 trying to describe is not a fungible quality, and therefore
21 a National Firm who has two, ten or twenty-five experts in
22 the corps, as you described in one of your examples, that
23 does not mean that all of their people are experts, and yet
24 they will be entitled to hold out the firm as being an expert.

25 That does not mean that the partner in charge

1 of a given account in the City of Buffalo may be an expert.
2 It may mean that the man in Kansas City has qualified to be
3 an expert.

4 I feel that that is the kind of thing, coming
5 after the report of the Derieux Committee, really runs
6 across the grain of some of the sentiments expressed in that
7 report.

8 I would come down on the side of one of the
9 alternatives you mentioned. There's no question that a man
10 who is an expert can not be prevented from saying he is.
11 I guess that's almost a legal given, but I have a problem
12 with the firm then holding itself out to be expert in all
13 its activities based on the qualifications of one or more
14 men within the firm.

15 I believe that if you were to eliminate the
16 Interpretation presently in existence and go back to just
17 being opposed to things that are false, misleading and
18 deceptive, that we perhaps might be at a place where as
19 a profession made up of ethical gentlemen, we could conduct
20 ourselves appropriately without having to have something
21 that would be detrimental to a large segment of our
22 profession.

23 MR. WHITEHAND: Well, I appreciate your
24 comment, and of course just eliminating the present
25 Interpretation and replacing it with nothing is a very

1 viable and alive alternative.

2 Let me say one thing; that in exposing what
3 we did, we exposed what we thought was the maximum amount
4 of verbage that we could.

5 Now, there's a method or there's a reason for
6 doing that. You get -- we know that we have a great number
7 of views in the profession, and the only way we have of
8 soliciting those views is through the exposure process, and
9 it seemed wise to us in doing -- in putting an exposure
10 draft the way we did, to include, for example, the guidelines.

11 There was some feeling that simply to drop
12 the existing Interpretation might cause a great deal of
13 confusion and misunderstanding, but we are certainly not
14 precluding any -- we are simply not precluding the possibility
15 of simply dropping the Interpretation altogether.

16 I have to make one technical point in reference
17 to the thing you said, and it's somewhat subjective, and
18 that is this; that the Institute per se is composed of
19 individual members, and we legislate in the Code of Ethics
20 with respect to firms through our ability to write Rules
21 that say neither a member nor his firm can do this, that or
22 the other thing, but in any enforcement action, we have to
23 go find out which member was responsible for the action.
24 This is not really -- this has not really been a problem
25 for us, but we can not in our Code of Ethics have Rules that

1 apply only to firms. It's a highly technical point, but
2 literally we couldn't legislate that a member could do
3 something that a -- that his firm could not, is what it
4 sort of boils down to.

5 I appreciate the fact that you are going to
6 send us your comments. We hope that we get comments from
7 all State Societies, Firms and everyone else.

8 Any further questions?

9 MR. DRESSELHAUS: J.B. Dresselhaus, Nebraska.
10 I'd like to ask a question.

11 Have the Regional Council Meetings
12 discussions been transmitted to the Committee?

13 MR. WHITEHAND: I'm sorry, I didn't --

14 MR. DRESSELHAUS: Have the Regional Council
15 Meetings discussions on this issue been transmitted to the
16 Committee?

17 MR. WHITEHAND: Yes.

18 MR. DRESSELHAUS: Thank you.

19 MR. OGLETREE: Harvey Ogletree from Georgia.

20 One of the things that we have been concerned
21 with in Council here, and this is, I think, my fifth year on
22 Council, is that every time we debate one of these issues,
23 we are told that we have a legal opinion or shadow looking
24 over us, that the big bad guy, Justice Department or Federal
25 Trade Commission or something is going to get us if we don't

1 do something.

2 I think it's time that we stood up and do in
3 this profession what we think we ought to do as opposed to
4 being concerned with what might happen.

5 Any attorney, I think, will tell you that it
6 is probable that something may happen to you.

7 In our concern with this particular issue
8 as a specialist, in looking at the Standards that were given
9 to us at the Regional Meeting, we find the Standards to be
10 very low level, almost any accountant can have the kind of
11 hours that we are talking about here, and we feel that the
12 Standards are not sufficiently definitive, nor inclusive
13 to determine who might be a specialist or an expert.

14 In looking at the earlier study, and I think
15 Wilbur Stevens, Chairman of that Committee when we considered
16 it maybe in Denver or somewhere else at some earlier
17 meeting, I think one of the reasons that that Committee
18 Report was put aside, and as I remember it was reported to
19 Council but never voted on by Council, I may be wrong on
20 that, but that's my recollection, that one of the things
21 that held that up was not necessarily dollars, but the
22 fact that that Committee went into so much detail, you could
23 be considered to be an expert on the Schedule A of a 1040
24 if you did certain things, and I think what we really are
25 looking at here are really broader specialists or experts.

1 I don't agree that the two may not be
2 synonymous, but what I think we are looking at here is
3 maybe a more definitive definition, and I recognize that the
4 Ethics Committee may need this as a means of enforcing, but
5 I think it is of sufficient importance to us as a profession
6 that it needs a deeper study and more time spent on it and
7 Council to consider it than we are to accept this level of
8 standards.

9 MR. WHITEHAND: Thank you. I would like to
10 return, if I could, sir, just a minute, Mr. Chairman, to one
11 of the comments that the earlier gentleman made, and that is
12 concerning the -- I guess you'd call it the big firm-little
13 firm issue.

14 That is not the way the Executive Committee
15 split in proposing this particular exposure draft. There
16 was no unanimity among any of us as to the exact wording, but
17 on no issue did we split on the small firm-large firm
18 issue, and in fact our Committee does have a majority of
19 people from small and medium sized firms.

20 Now, it was -- I am not aware that the
21 Committee on Medium and Small Sized Firms took a particular
22 stand on this issue, although there was some comment on
23 specialization in there, but it could not be interpreted as
24 being supportive of the existing ban, nor would I say that
25 it was supporting of removal of the ban, but I would also

1 remind you that with the ban in place, you give an advantage
2 to those firms that can afford to have an organizational
3 structure, who can afford to spend a great deal of money in
4 research and development in new areas, you give them an
5 opportunity, of course, to use that as a way of stating that
6 they are in effect specialists and experts without ever
7 using those bad words or derivatives thereof, so I would
8 just point that out to you.

9 Does anybody have anything to say about
10 confidentiality? I got blasted at a number of places about
11 that. There's a gentleman there.

12 MR. DERY: I want to say one thing about the
13 other topic, that self-designation of experts. Andy Dery
14 from New Hampshire.

15 After the last Regional Meeting I sent out a
16 questionnaire to the membership, and approximately 20 percent
17 of the members responded and voted -- I mean indicated that
18 they felt they were against this particular designation.

19 We have a small society, and maybe 20 percent
20 is not significant, but at the time that we sent it, it was
21 the tax season, and certainly many members, I'm sure, did
22 not respond, but overwhelmingly the members of the Society
23 are against this.

24 MR. WHITEHAND: Thank you.

25 MR. O'HARA: John O'Hara, Pennsylvania. I

1 think I was on the Ethics Committee three years when this
2 was going on, and some of the cases were coming to us, so I
3 do have a little background.

4 I think the Institute may have -- we all made
5 a mistake when we created this Committee, and as Clay
6 Ostlund says, we put something in to the Code which didn't
7 deserve to be there, just to cover our rearends.

8 Let's face up to the fact that this was a
9 mistake. Let's not try to jerry-build an unsatisfactory
10 alternative. Let's just take the damn thing out, and then
11 if we want to study it, study the problems some other way.

12 Let's get it the hell out of the Code.

13 CHAIRMAN KANAGA: One suggestion that was
14 made at the Regional Council Meetings was that we should take
15 another look at the Stevens Report, Wilbur Stevens Committee,
16 and I believe that is a responsible suggestion and one that
17 we should follow. That is a time consuming process and
18 not one that I -- I mean one that would fit with your
19 suggestion, John, which is to put that back on the stove
20 for another look-see, for a future time.

21 MR. ISREAL: Sy Isreal, Michigan. I was at
22 the Chicago Regional Meeting. Seemed that my recollection
23 is that some member brought up a comparison with our
24 colleagues of the Medical Profession. If we do decide to
25 drop the ban and try to develop a program, which I am in favor

1 of taking time to arrive at that conclusion, by the way,
2 they do have special colleges, and the man who wants to join
3 a College of Obstetrics must meet certain standards and so
4 on, and only then can he put up that certificate or
5 designation.

6 I think the only logical way for us to proceed
7 is to do something along the same line, and then you will
8 have standards where a man can claim he's an expert in an
9 area.

10 MR. WHITEHAND: Let me just point out two
11 things on that. It is easy to cite what other professions
12 are doing.

13 With respect to the Medical Profession, as I
14 understand it, when an individual has completed essentially
15 his basic medical training, it is at that point that he
16 begins a career in specialization to the exclusion of all
17 other specialties, so if you want to take that, the analogy
18 further, what we'd have to tell all the people coming out,
19 once you've got your CPA, if you want to be a specialist
20 or an expert, you then have to immediately go into whatever
21 your specialty is going to be.

22 Now, you can argue that a number of firms,
23 that's what happens, people become auditors, tax people,
24 consulting people, some become experts in individual income
25 tax returns, others become specialists in corporate, estate

1 or corporate planning, others become experts in reorganization,
2 but these are skills that are usually acquired over a longer
3 period of time in the public accounting practice.

4 Second of all, I submit to you that there
5 is quite a difference between the nature of a commercial
6 transaction between a CPA and a client and between a physician
7 and his patient.

8 Remember, we are talking about this very
9 delicate issue of advertising and solicitation, and I
10 suppose the best self-disciplining mechanism we have is
11 the fact that if you purport yourself to be an expert or
12 specialist and if you get hired on that basis and you can't
13 produce, your client is going to be about the first to figure
14 that out, and they aren't going to wait for the American
15 Institute to run a check or to take any disciplinary
16 proceedings before they take whatever action they feel is
17 necessary.

18 Now, that's a bit of a different transaction
19 than between you and the brain surgeon. Rarely does the
20 patient have the opportunity to get an alternative brain
21 surgeon for the second time around.

22 CHAIRMAN KANAGA: Is there any further
23 comment on 502-4? Marvin, are you on 502-4?

24 MR. STRAIT: I'm Marvin Strait from Colorado.

25 I have here the April issue of the Practice of

1 CPA. Without reading the whole thing, there are two
2 articles that discuss practice role in the '80's and also
3 discuss marketing. The words specialist or specialization
4 is mentioned at least ten times, and for us to have a rule
5 in our Code that prohibits the use of it while at the same
6 time the way we practice and the way we think is truly in
7 a specialized form, as a practical matter, our profession
8 is too complex to practice any other way, and I think the
9 Rule as proposed -- probably the guidelines were confusing,
10 and at a minimum they should be eliminated or the Rule
11 should be eliminated.

12 MR. WHITEHAND: Thank you.

13 CHAIRMAN KANAGA: Thank you. Is there anybody
14 else who wants to comment on 502? Jim.

15 MR. KAUSCH: I'd like to make two comments
16 since you mentioned the Medical Profession. I looked into
17 this area, and you have a somewhat different approach there.

18 Number one, when they finish their formal
19 training at the internship, then they may stay in for
20 further training by residency training which would then
21 result in specialization without board certification.

22 They may then practice and designate themselves
23 as their practice is limited to either family practice or
24 whatever their practice may be, but you have a safeguard in
25 the Medical Profession which you do not have, and that is the

1 admission to hospital practice.

2 You may be admitted to a certain small
3 hospital as a surgeon or a certain type, but yet you would
4 not be in a larger one, so the ultimate facility there
5 lies in the hospital practice, not in the office practice.

6 Certainly there's what I was trying to point
7 out earlier, is that you restrict it to practice, could be
8 the beginning step in our solving our problems.

9 CHAIRMAN KANAGA: Well, to sum up, Frank,
10 what I hear is a lack of enthusiasm for the proposed
11 Interpretation and a lack of enthusiasm for the Interpretation
12 that now exists, which leaves us with your third alternative
13 which is to have neither.

14 MR. WHITEHAND: I would hope that I would -- I
15 would wish that the rest of the members of the Committee
16 were here. That warms my heart.

17 CHAIRMAN KANAGA: Sandy.

18 A MEMBER: Take a straw vote.

19 MR. WHITEHAND: Sandy, did you care to -- what
20 are you going to talk about? Confidentiality?

21 MR. BURTON: I'm Sandy Burton from New York.
22 I have both a comment and a question in regard to the
23 confidentiality issue and as it leads to another question as
24 well.

25 First, I support the two changes, or at least

1 I support the first change. The second change I am curious
2 about, because it seems to me, it does not go nearly far
3 enough in opening the procedures of the Ethic Division to
4 public view.

5 I have a very serious concern today that the
6 Accounting Profession is in the process of protecting its
7 individual members to the detriment in the long run of the
8 profession itself, because it seems to me that if we are
9 to sustain a posture of effective self-regulation, our
10 disciplinary process must be seen to be effective, and with
11 all due respect to the Trial Board, I believe, and to the
12 Public Oversight Board, which is perhaps distantly related
13 to this, I believe that the public image of the profession's
14 disciplinary process is that it is ineffective and inept,
15 and accordingly my own view is that there must be a substan-
16 tial effort to communicate what is going on as well as to
17 expand what is going on.

18 That is my comment. Let me add a question
19 which relates to the two issues.

20 Last February, a year ago February, Marshall
21 Armstrong's Committee was asked to join NASBA and the State
22 Societies, and the Institute reported and noted in its
23 report, the fact that it was encouraged in regard to
24 surveillance of compliance with professional standards.

25 It made two recommendations. One, it

1 supported the -- what it described as the plan of the AICPA
2 to develop a positive surveillance report with respect to
3 findings made under Federal Grant Programs, and second, it
4 went on more importantly, I think, to suggest that there
5 was an additional need for a general quality review so that
6 all CPA's in public practice are subject on a random
7 selection basis to a review of the quality of their work
8 with respect to their association with financial statements.

9 My question is, to what extent have these
10 recommendations been developed, implemented, and does the
11 Ethics Division expect to be moving in either of these
12 directions as part of its responsibility?

13 MR. WHITEHAND: Thank you. I'll comment on
14 these things from the standpoint of the Ethics Division,
15 and then Phil may wish to comment more in connection with
16 the Board of Directors if I haven't covered it completely.

17 I'll first comment on the -- philosophically
18 I agree -- personally speaking, only personally, I agree
19 with your comments about needing to open up the process.
20 On the other hand, at this particular point I do not perceive
21 that the membership is quite ready for a complete opening
22 up of the disciplinary process.

23 On the standpoint, I am sorry that you think
24 that it's ineffective and inept. It may be ineffective. I
25 would challenge you that it's inept.

1 MR. BURTON: That's a perception.

2 MR. WHITEHAND: Now, the specific of the
3 Armstrong Committee Report. We do have a positive program
4 with respect to Government Agencies. That has been
5 described in previous meetings of Council.

6 That feeling that I only had 40 minutes when
7 I came here, I decided not to describe that. You have
8 already heard that program.

9 I left the Armstrong -- I believe the
10 Armstrong Committee wanted to expand this to other
11 Government Agencies and to the State level and so forth.

12 Now, the Armstrong Committee Report was
13 referred by the Board of Directors to a Special Committee
14 for Implementation. It may be somewhat -- maybe someone
15 else can tell me where that Committee stands. I don't know.
16 It's some complex issues there in relationships with the
17 State Boards.

18 Well, the Cabinet is convening here, see if
19 we have anything.

20 MR. CHENOK: I'm Phil Chenok. Where's Wally
21 Olson?

22 That part of the program that relates to
23 positive enforcement, that part of the recommendation in the
24 Armstrong Report is being put into the hands of the Ethics
25 Division for further consideration relative to working with

1 the State Societies in trying to generate the same kind of
2 a program that we have adopted for the Federal Agencies, and
3 as a matter of fact, Frank, I guess that's part of the charge
4 of the new committee structure, that you get operating
5 within -- we'll have operating within the Ethics Division.

6 As to the issue of some kind of a Practice
7 Surveillance Program for the members of the Institute in
8 practice, that was discussed at a Board Meeting, and there
9 was a definite lack of enthusiasm for entering into that
10 sort of a program at this stage of the game, so that part
11 of it is not being pursued any further at this time.

12 CHAIRMAN KANAGA: Anybody else have any
13 comments? Sandy.

14 MR. BURTON: I have another question, if I
15 may. I've got a route more consistent with my stature and
16 so on.

17 CHAIRMAN KANAGA: You have always taken the
18 direct approach.

19 MR. BURTON: But I'm learning, I'm now a
20 member of Council.

21 Let me ask another question that is perhaps
22 related.

23 One of the ways in which we have devoted very
24 substantial resources in the past couple of years has been
25 to the Public Oversight Board. The Public Oversight Board

1 is involved with the SEC Practice Section in reviewing
2 performance.

3 In the Report of the Public Oversight Board
4 for 1980-81, a report which I must say suggests a very
5 modest return for substantial costs, there is an incredible
6 statement.

7 MR. WHITEHAND: You're not laying that burden
8 on me, are you?

9 MR. BURTON: No. There is a statement, the
10 only statement that deals with anything related to finding
11 anything wrong in the report.

12 It says, the Staff noted isolated instances
13 where, in the opinion of the reviewers, the deficiency in
14 performance of an engagement in accordance with generally
15 accepted auditing standards was so great that the firm did
16 not have a proper basis for issuing its report, but there
17 was no evidence that the financial statements were not in
18 accordance with GAAS. Existing professional literature does
19 not deal specifically with the situation, a strange statement
20 when one looks at the Ethics Rules.

21 What I'm interested in, in such a situation,
22 have you received any references from the Public Oversight
23 Board or any activity related to the Public Oversight Board
24 that might suggest Ethics Committee Enforcement in
25 connection with any of the reviews undertaken by the Public

1 Oversight Board or the Peer Reviewers who were under its
2 general supervision?

3 MR. WHITEHAND: In a word, no.

4 MR. BURTON: Have you sought any such
5 references?

6 MR. WHITEHAND: Yes, and let me also point
7 out that we do have a working agreement, not yet with the
8 Public Oversight Board, we do have a working agreement with
9 the Special Investigations Committee of the SEC Practice
10 Section, that when they're done with whatever they do to
11 their firms, that we get first crack at the individual
12 offenders within the firms, but that is relatively new, and
13 frankly we don't have any returns on that yet, but your
14 point is well taken. I don't know what that would do to the
15 Peer Review process which is supposed to be cloaked in
16 secrecy.

17 CHAIRMAN KANAGA: We might defer that, Sandy,
18 until tomorrow morning, Joe Loftus, Chairman of the Peer
19 Review Committee of the SEC Practice Section will be on the
20 Panel that starts off the morning session. It's an item that
21 has been debated, and we will entertain your question at that
22 point for Joe.

23 Yes, sir.

24 MR. DAVIS: Mr. Whitehand, Lamar Davis,
25 President of the Georgia Society, member of Council.

1 With due respect to Professor Sandy Burton,
2 I would like to say first of all that it's my opinion, and
3 I believe the majority opinion of the members of the Georgia
4 Society that the American Institute Ethics Program has not
5 been ineffective and inept.

6 Secondly, I would like to say that the
7 Georgia Society in the past several months, as you're well
8 aware, I have communicated with you, has taken the position,
9 based on the unanimous vote of our Committee on Professional
10 Ethics, based on the unanimous vote of our Management
11 Committee, and more recently during the month of April,
12 based on the unanimous vote of our Board of Directors, has
13 taken the position that we oppose Rule 502-4.

14 We are opposed to the proposed modifications
15 which would permit designation of specialists and experts,
16 and secondly, we have taken the same, I guess you might say,
17 kind of apartheid opposition to Section 3-A-3 of the Revised
18 JEEP Manual which does deal with Rules on Confidentiality.

19 I think it would be fair to say that there is
20 some feeling of support for the Positive Enforcement Program
21 which was revealed last October, at least to my first
22 knowledge last October at the Convention, although I believe
23 that the minority position is in favor of the Positive
24 Enforcement Program, that is only an opinion, I believe
25 that there is a majority feeling in Georgia, among our

1 members, that we would be opposed not only to the removal
2 of the Rules of Procedure on Confidentiality, almost -- well,
3 to a great majority, but also be opposed to the Positive
4 Enforcement Program, and the Postive Enforcement Program
5 feeling stems from the feeling that there is adequate
6 machinery, adequate opportunity for both Federal Agencies
7 and State Agencies to bring to task those members whose
8 work is substandard or whose work is not in accordance with
9 the requirements of both Federal and State Agencies.

10 We feel, I think, to a large degree, that
11 for the Georgia Society or the American Institute or both
12 to engage in a very aggressive Positive Enforcement Program
13 is contrary not only to the interests of the members of the
14 Georgia Society and the American Institute, but to the
15 interests of the profession as well as the public at large.

16 MR. WHITEHAND: Thank you.

17 MR. SCHMALTZ: Don Schmaltz, Michigan. I
18 have a question I'd like to pose.

19 With respect to Rule 502-5, Form of Practice,
20 it states that a firm may not designate itself as members of
21 the American Institute of Certified Public Accountants unless
22 all of its partners or shareholders are members of the
23 Institute.

24 In self-designation for firms who represent
25 the firm as a specialist in a given area, might it also then

1 be appropriate for a requirement that all partners in that
2 firm engage in that specialty in order for that firm to
3 self-designate itself as a specialist?

4 MR. WHITEHAND: I won't try to sell that
5 idea.

6 CHAIRMAN KANAGA: If there are no more
7 questions of --

8 MR. WHITEHAND: Can I go home?

9 CHAIRMAN KANAGA: Thank you once again for
10 a most responsive report.

11 (Applause.)

12 CHAIRMAN KANAGA: This concludes our session
13 this morning, and I remind you that the golf tournament is
14 scheduled to start very shortly.

15 We will reconvene at 9:00 a.m. tomorrow
16 morning.

17 One final reminder. As you gather up your
18 papers, take that one where you filled out your attendance
19 and drop it in the back of the room.

20 All of you will be -- you're invited to the
21 reception at 6:30 this evening.

22 Thank you.

23 (Proceedings recessed.)

24 * * * * *

25

1 THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC
2 ACCOUNTANTS, SPRING MEETING OF COUNCIL, was called to order
3 at the Arizona Biltmore Hotel, Phoenix, Arizona, on May 12,
4 1981 at the hour of 9:00 o'clock a.m. by Mr. William
5 Kanaga, Chairman.

6
7 CHAIRMAN KANAGA: Good morning, Ladies and
8 Gentlemen. It's resonating a little. Is that too loud?
9 I'll move back.

10 Welcome to our Tuesday morning session.
11 First item on the Tuesday Agenda is a panel discussion on
12 the Division for CPA Firms.

13 Our discussions at the Regional Meetings of
14 Members of Council indicated that there was an ongoing
15 interest in the Division of CPA Firms and where it's going.

16 The Division was created four years ago,
17 although for some of us it seems a half century.

18 The reports on its progress and development
19 have been made periodically to this august body. To that
20 end we have arranged for an updating, we have arranged for
21 a panel session this morning with representatives of both
22 sections of the Division.

23 We have with us standing in the wings over
24 here and ready to proceed to the dais here, B.Z. Lee,
25 who's a member of the SEC Practice Section, Marvin Strait,

1 member of the PCPS Practice Section, both of those are
2 Executive Committee memberships, Joe Loftus who is Chairman
3 of the SEC Practice Section Peer Review Committee, and Morris
4 Hollander, Chairman of the PCPS Peer Review Committee,
5 finally, Rholan Larson who is Chairman of the SEC Practice
6 Section, Special Investigations Committee.

7 Gentlemen, why don't you come on up, and we'll
8 hook up.

9 How does that sound? Does everybody agree
10 with what has been said so far?

11 One of the pleasures in chairing a group like
12 this is that you're on the giving end instead of the receiving
13 end.

14 I would like to start off with a question
15 directed at the Private Company Practice Session, since
16 that's where the bulk of the membership is coming. Somebody
17 reduce that. Is it better?

18 A MEMBER: Don't say anything.

19 CHAIRMAN KANAGA: Everybody likes it this way.

20 The PCPCS started off with a lot of lofty
21 objectives, Marvin, relative to improving the quality of
22 practice, to establishing an effective system of self-
23 regulation, and also to provide a better means for member
24 firms to make known their views on the developments in the
25 Professional Standards.

1 How do you think the Section has responded
2 to those objectives?

3 MR. STRAIT: Well, I think the Section has
4 responded well. Everyone knows, of course, that we don't
5 have a hundred percent membership or anywhere near that;
6 however, it would be worthy to note that 44 percent of the
7 members of the Institute that are in public practice are
8 members of the PCPCS Section, and of course the Division
9 of Firms.

10 As evidenced by the last National Conference
11 we had, which was just two weeks ago in Kansas City, there
12 is a great deal of interest and commitment to quality. The
13 Peer Reviews are starting to come in this year, and I'll
14 let Morry address this, the number of Peer Reviews
15 scheduled, and we can even tell by the tone of the
16 Conference that in a year or two to come, Peer Review will
17 not be the main topic at the Conference, the Technical
18 Issues Committee and the types of things that PCPCS is doing
19 there will be more the topic.

20 CHAIRMAN KANAGA: You think that's a function
21 of really settling into Peer Review, finding that it's
22 behind the individuals or firms that have the successful
23 Peer Reviews, and another year or two, that will have all
24 have settled in?

25 MR. STRAIT: I think so. We can tell with the

1 hands raised that people that were there -- incidentally,
2 the Conference had the highest ratings of any of the
3 Conferences we have had so far, and allowing for one more
4 year, it will be -- many of the people that will attend
5 that will have been through Peer Review.

6 That's something that, of course, will always
7 be of attention and be maintenance factor, but I think,
8 frankly, many of them are interested in other areas, and
9 perhaps what I think is the most important area of PCPCS,
10 and that's the technical issues and representing the
11 views of the local practitioner in many areas of the
12 Institute and outside of the Institute.

13 MR. HOLLANDER: I think that's very, very
14 true. Also it was interesting that immediately after the
15 PCPCS Conference we have actually two training programs
16 regarding Peer Review, and the one which is the introductory
17 course, we had about 150 people that attended, so that I
18 would say that probably two-thirds of those were there
19 representing their firms getting ready for Peer Review as
20 opposed to, or maybe that's their primary reason, in
21 addition to being there to become familiar with the
22 function of being reviewers themselves.

23 CHAIRMAN KANAGA: Um-hum. With membership
24 just over 2,000 firms, Marv, it sounds as if we've got a
25 long way to go.

1 MR. STRAIT: Clearly we do, and I think many
2 cases that will just be a function of the marketplace.

3 We should also bear in mind that many of the
4 practice units do not have significant audit practices.
5 PCPCS is still interested in having them belong, and we have
6 in fact instituted some special Peer Review Programs for
7 those who have little or no audit practice, but I think that
8 the word still hasn't passed out about the Country, and so
9 when we take the firms that have significant audit
10 practices, why, we can say that PCPCS is definitely working
11 for them, and I think will continue.

12 CHAIRMAN KANAGA: Have you had your Peer
13 Review?

14 MR. STRAIT: Yes.

15 CHAIRMAN KANAGA: Did you pass?

16 MR. STRAIT: Yes, we got by, and I understand
17 that we have a letter coming from the Section now, but we
18 already have had an opinion on it, so we are very pleased
19 and makes it easier to talk about it.

20 CHAIRMAN KANAGA: Do you intend to talk about
21 it at Colorado Springs?

22 MR. STRAIT: I may mention it a time or two
23 to bankers and/or attorneys.

24 Yes, we are proud of it, and probably have
25 some kind of information listing in our newsletter, and I

1 think that's healthy, and I think other firms in Colorado
2 Springs that are also members will go for it.

3 CHAIRMAN KANAGA: You think that might help
4 them make their decision?

5 MR. STRAIT: Well, it certainly isn't going
6 to hurt.

7 CHAIRMAN KANAGA: Morry, Marvin has been
8 talking about the importance of Peer Review. Certainly at
9 this stage how do you see the firms doing it at this point?

10 MR. HOLLANDER: At this point in time I think
11 the firms have basically been doing rather well. We have
12 had a total of, I guess it's about 220 reviews of PCPCS
13 Member Firms. 80 of those have been done in PCPCS alone,
14 and of those 80, although we still have some that are being
15 processed now by the Committee, I say probably about 90
16 percent of those have resulted in unqualified opinions, and
17 the firms have basically been doing good.

18 If there's been any problem as such it's a
19 problem basically resulting in two areas. One is inspection.

20 I think the firms, local firms by and large
21 are just getting accustomed to what inspection is, and what it
22 really means, and how they've got to comply with it, and this
23 has resulted in some modified reports as a result of that.

24 The second issue basically results in a
25 documentation issue, not so much that firms haven't performed

1 particular procedures, but they just haven't been documented
2 that well in the work papers.

3 I think it's been the same practice in the
4 SEC Practice Session. We have taken the position that lack
5 of documentation in and of itself would not result in a
6 qualified report, because you can usually satisfy yourselves
7 by other means.

8 CHAIRMAN KANAGA: And we don't want to get
9 ourselves into a position where we say that the documentation
10 is the sole evidence that the work is done.

11 MR. HOLLANDER: Absolutely.

12 CHAIRMAN KANAGA: Incidentally, if anybody
13 has questions as we cover these subjects this morning, why,
14 I think it's a good idea for us to be raising the questions
15 as we go along rather than holding them until the end, so
16 if anybody has any questions on these items, please just
17 raise your hand.

18 Morry, one of the things that I think
19 concerns every small firm -- well, it concerns everybody,
20 but particularly the small firms, is the cost of Peer Review
21 or the perception of what the cost might be.

22 MR. HOLLANDER: Um-hum. Well, we have been
23 particularly mindful of that in PCPCS. As a matter of fact
24 there's been a Special Task Force with membership both
25 from the Executive Committee and from the Peer Review

1 Committee monitoring the cost of Peer Review.

2 I do have some information on the cost of
3 Committee Appointed Reviews during 1980. If I may, let
4 me share that with the group.

5 For sole practitioners during 1980 the
6 average costs were about 11 hundred dollars. This
7 included both the actual fee time plus travel costs, and
8 there's a ten percent surcharge that is on the fees that
9 goes to administer the Reviews on the part of the Staff.

10 For little larger firms, firms with one
11 partner, from two to five professionals, the average cost
12 was about 18 hundred dollars.

13 Going further up with firms up to five
14 professionals, is about 21 hundred dollars, and then ranged
15 all the way up to firms with over 20 professionals, it
16 ranged from 21 to 43 professionals, the cost, average cost
17 there was \$6,000.

18 So I think that that is certainly not a
19 burdensome -- not an onerous cost, considering that it's
20 just a cost incurred by a firm once every three years. I
21 think it's safe to say on the Peer Review Committee's
22 perspective we are pleased that these costs came in within
23 that range, I think pretty much what we had anticipated.

24 CHAIRMAN KANAGA: You think the concern
25 focuses on the unknown element as much as concern over the

1 amount of dollars?

2 MR. HOLLANDER: I think so. I think that
3 from what we have seen, most local firms have not undergone
4 any type of Peer Review, any exposure to their Peers in the
5 past, and I think there's a psychological factor involved,
6 that fear of whether or not they're going to pass, whether
7 or not their practice meets up to professional standards.

8 CHAIRMAN KANAGA: Like some of our clients,
9 when they undergo their first audit.

10 MR. HOLLANDER: Exactly.

11 MR. STRAIT: You might mention the little
12 confusion in the increase in costs when firms belong to
13 both Sections.

14 MR. HOLLANDER: Well, when the firms belong
15 to both, what particularly --

16 MR. STRAIT: If they belong to both
17 Sections and they have a Panel Review, the firm on firm
18 with a Panel Review, there is an extra cost for the Panel,
19 and some people are taking those costs as the cost that
20 they might incur, but it's not necessary, I mean just as
21 an explanation.

22 MR. HOLLANDER: Right. If a firm has a
23 Committee Appointed Review, that is a review that is done
24 by an American Institute Appointed Team, then that would
25 be the only direct cost.

1 On the other hand, if it's a firm on firm
2 review and it's done under the auspices of the SEC Practice
3 Section, then there is a Quality Control Review Panel that
4 is interposed there. That Panel could be from -- well,
5 either one or three people, depending upon the size of the
6 firm.

7 That is an additional cost above and beyond
8 the cost of the one firm charging the other.

9 MR. LOFTUS: A recent survey indicated that
10 cost ranges from six percent to in excess of 80 percent
11 of the firms under review, and it's true that the
12 smaller the firm, the more disproportionate the cost.
13 That percentage is as a percent of the Reviewing Firm's
14 fee, so it can add up.

15 MR. STRAIT: We should emphasize that would
16 be firms that belong to both Sections, where they choose
17 a firm on firm review, they choose the CART Review or the
18 Committee Review, why, that would not be necessary, and
19 that's important, because sometimes in the past members got
20 confused.

21 MR. HOLLANDER: That's true. The other
22 factor that would impact the cost is also the fact that
23 in 1981 the Reviewer hourly charges have been increased.
24 The PCPCS, we have not had a standard raise since the
25 inception of the program. In this year, this is the first

1 time that we have increased those prices, and they now
2 range basically from \$55 an hour for Captains for firms
3 with less than 20 professionals and no SEC clients to
4 firms with 40 or more professionals or that have an SEC
5 client, a team captain would be \$65 an hour.

6 We monitor this on an annual basis to try
7 to make it relative to the average billing rate for
8 member firms.

9 CHAIRMAN KANAGA: Joe, since the question
10 of the Panel Review has been raised, where do we stand
11 on the prospects for eliminating that Panel?

12 MR. LOFTUS: Well, at the very -- that's a
13 very timely question, Bill. Yesterday the Public Oversight
14 Board sent a letter to the Chairman of the Executive
15 Committee and myself, advocating that the SEC Practice
16 Section considered doing away with Quality Control Review
17 Panels. It was their survey that I quoted a few moments
18 ago.

19 What the POB recommends in place of a Panel
20 is a one partner conferring review. In other words, an
21 independent partner not associated with the firm performing
22 the review would review the scope, review the report, letter
23 of comments and what have you, but it would not be a panel,
24 he would not go out and review work papers, it would be one
25 man or one person and not three.

1 I personally support that position, and I
2 know a number of other members of both the Peer Review
3 Committee and the Executive Committee support that position.

4 I think it's fair to say that in the short
5 run with a little bit of luck the Quality Control Review
6 Panel as we know it today will no longer exist.

7 CHAIRMAN KANAGA: We'll get one layer unlayered.
8 Is part of their reasoning the fact that they
9 have stepped up their efforts?

10 MR. LOFTUS: It's not that so much, Bill, it's
11 based on the survey, and they have talked to firms that
12 were reviewed, they talked to individuals who were on the
13 Quality Control Review Panel. They concluded that the
14 benefits derived from that Panel do not justify the cost,
15 and that's basically it.

16 CHAIRMAN KANAGA: They never did. It was -- I
17 mean that's not new. The fact is that it was put in there
18 because of the perception of firms doing reviews of other
19 firms, perception, primarily, and the pressure coming from
20 our friends down there at Washington who have never been
21 known for cost-benefit relationship studies, but I assume
22 that before the SEC Practice Section would move on, that
23 they would want to make sure that we don't generate any
24 flap in Washington.

25 MR. LOFTUS: Yes, we'll have to discuss it in

1 Washington.

2 MR. LEE: There's already been some
3 indication at the SEC that they're sensitive to it, and
4 perhaps even unofficially in agreement with the
5 recommendation that these Panels be done away with.

6 CHAIRMAN KANAGA: Well, there has been some
7 talk in the current administration about getting more cost
8 conscious.

9 How would you, Marvin, assess the progress
10 in getting member firms to make their views known on
11 professional development?

12 MR. STRAIT: Well, I guess that centers
13 around the activities of the Practical Issues Committee
14 which we in the PCPCS think it really represents a great
15 deal of the future, and perhaps the most important part
16 of PCPCS.

17 We are aware of the fact that many small
18 and medium sized firms do not have the time to read all the
19 pronouncements and to sit down and adequately think out
20 common on all of them, yet the comments from that sector
21 of our practice are most important.

22 Incidentally, it's not an adversary
23 relationship. It's many times members of good will trying
24 to do the best, and they want input from all sorts, and that
25 doesn't mean they always agree, but they clearly want and

1 seek input from the small and medium sized practices.

2 The Technical Issues Committee is designed
3 to do just that, and they are wired into many of the
4 pronouncements that come from all areas of the Institute,
5 and clearly do and have commented on activities straight
6 forward and have offered their assistance and help in any
7 of the issues.

8 It's not just within the Institute. For
9 instance, as an example, the regulations that came out
10 on Code Section 385, which we think are particularly
11 onerous and complex and certainly not justifiable on a
12 cost-benefit point of view, the PCPCS Technical Issues
13 Committee has come to the Tax Division and asked them to
14 step up their activities and be more involved in terms of
15 either changing or perhaps having those regulations
16 withdrawn.

17 We, of course, encourage all practitioners
18 to comment directly to the Committee or whoever it is, to
19 send all copies to the Technical Committee, but the
20 Technical Committee is working hard. They meet almost
21 monthly, and they are certainly trying and attempting to
22 comment from the viewpoint of local practice.

23 CHAIRMAN KANAGA: B.Z., related to the points
24 Marvin just was making. Do you think that this is being
25 responsive to some of the concerns that the Derieux

1 Committee had in this area?

2 MR. LEE: Well, I think very definitely, Bill.
3 The Derieux Committee in its report and in its recommendations
4 focused on any number of areas that suggested to us that
5 PCPSC should be intimately involved in the Resolution, and
6 as we see this unfolding now it's plain that PCPCS is the
7 arm by which a great many of that Committee's recommendations
8 will find implementation.

9 Marvin and I talked about it briefly
10 yesterday. As a matter of fact we talked about it, perhaps
11 even highlighting in the Derieux Committee Report those
12 items that do interrelate to PCPCS.

13 MR. STRAIT: We have some accomplishments
14 already. One of the Derieux Committee recommendations
15 involved PCPCS as to the FASB, if they should happen
16 to -- if their opinion should happen to differ somewhat
17 from the Auditing Standards Committee, and they have
18 worked with Auditing Standards Committee and worked out a
19 procedure, and the bottom line is that obviously we want
20 to have their input and their information, they want to
21 have ours, but when it comes down to the end, if there is
22 still disagreement the PCPCS does have direct access to
23 FASB.

24 Incidentally, the FASB Advisory Committee
25 has directly contacted PCPCS Technical Issues Committee and

1 would like their input on some issues directly themselves.

2 Bill and I have mentioned yesterday that a
3 recommendation of the Derieux Committee was in regard to
4 the wording in AICPA Publications regarding Audit Committees,
5 and that was taken up at a Board Meeting last Friday, and
6 although it's very specifically the terminology approved,
7 the selection is now going to be in our publications.

8 MR. LEE: Yeah, Bill mentioned that
9 yesterday.

10 MR. STRAIT: There is another comment in the
11 Derieux Committee about 543, and the Auditing Standards
12 regarding use of work of another auditor, and there has been
13 a letter to them from the PCPCS Technical Issues Committee
14 essentially saying that the changes recommended so far
15 were a step in the right direction, but we think that it
16 was really not responsive to the issues raised in the
17 Derieux Committee, and we know that they are still working
18 on it.

19 That's not an accomplishment, but certainly
20 we have got our finger on the pulse, you might say.

21 The cost of Peer Review is another recommenda-
22 tion of the Derieux Committee, and just listening to Morry
23 today, there is a Committee who has a -- a Task Force has a
24 direct responsibility of keeping on the cost and trying to
25 keep them in line and reasonable, and certainly we are

1 monitoring them.

2 MR. LEE: Bill, I think too that the Committee
3 recommended that high level staff individual be --

4 CHAIRMAN KANAGA: The Derieux Committee.

5 MR. LEE: The Derieux Committee recommended
6 that a high level staff individual be designated by the
7 Institute to deal with the concerns of small and medium
8 sized practices, and I think as that recommendation is
9 implemented, and I'm reasonably sure it will be implemented,
10 I think we are going to find that that individual and
11 his interfacing with PCPCS is going to function in a way
12 that will even more than presently add to the stature and
13 the credibility of the PCPCS as the representative of the
14 small and medium.

15 I see a hand over there.

16 A MEMBER: Yeah. I want to make sure I heard
17 what I thought I heard concerning, you know, the Private
18 Companies Practice Section Technical Committee. Should it
19 find that the Accounting Executive Committee does not agree
20 with it, the Private Companies Practice Section would have
21 the right and the authority to comment directly to the
22 Financial Accounting Standards Board?

23 MR. STRAIT: That is correct. There is a
24 procedure that they go through to make sure that they get
25 the input from both sides, and they will meet on the subject

1 if at possible, but the bottom line is if they disagree,
2 the PCPCS has direct access.

3 A MEMBER: Now, does that mean that the
4 SEC Practice Section, should they disagree with the
5 Accounting Executive Section will not start to the FASB
6 per se? Soon we'll have a whole little proliferation of
7 every little Institute in the Committee writing to the
8 FASB on behalf of all of us.

9 MR. STRAIT: I don't think that the SEC
10 Practice Section at least at the moment has the intention
11 of involving itself in that sort of activity, and for
12 fairly obvious reasons.

13 The PCPCS sees its role in one way, and I
14 think the Institute identifies with its role in terms of the
15 Standards setting responsibilities completely different
16 than the SEC Practice Section, and I don't think it's fair
17 to, or correct to suggest that because the one is going to
18 do it, that there will be the proliferation that you
19 described.

20 A MEMBER: No, but my sarcasm was intended,
21 and now finding that there is another group that is going
22 to be writing purportedly on behalf of some section of the
23 Institute, I thought the Accounting Executive Committee had
24 that role solely to itself.

25 CHAIRMAN KANAGA: You're right in using the

1 past tense.

2 MR. HEPP: Bill, I might comment on the
3 agreement that has been worked out. Gerry Hepp from
4 Michigan.

5 The underlying idea and the underlying
6 agreement on this procedure is that there really should be
7 only one voice on the part of the Institute talking on
8 accounting matters; however, in recognizing the needs of
9 small business this agreement has been worked out whereby
10 the Private Companies Practice Section is expected to be
11 a part of the input for ACSAC when they're responding
12 to the FASB, and the agreement is that there will be
13 discussions between ACSAC and the Private Companies Practice
14 Section before in fact a separate letter would go forth.

15 If the point is reached where a separate
16 letter is desired by the Executive Committee, then the
17 understanding is that that letter will be an attachment to
18 ACSAC's letter and will specifically state why the PCPCS
19 believes that some particular part of the response is not
20 responsive to the needs of the small business.

21 So I think there's a lot of understanding as
22 far as trying to make sure that the issue has been properly
23 thought of before in fact a separate letter will go forward,
24 and I would expect based upon the agreement that has been
25 worked out, that it will be a rare case that a separate letter

1 will be going forth.

2 CHAIRMAN KANAGA: Thank you, Jerry.

3 B.Z., we have been listening about all the
4 things that have been happening in the Private Company
5 Practice Section. What do you see real benefits coming from
6 the SEC Practice Section?

7 MR. LEE: Well, Bill, I think you have to
8 break that into two parts, or at least I view it in two
9 parts.

10 Firstly, from the perspective of the
11 profession as a whole, and then from the vantage point of
12 the member firms of the SEC Practice Section.

13 From the viewpoint of the profession, I look
14 at what were two of the objectives in the creation of the
15 Section, and perhaps even the two principal objectives, the
16 first being to improve the Quality of Practice before the
17 SEC, and the second, to establish and maintain an effective
18 system of self-regulation.

19 I think those objectives have thus far at
20 least been accomplished, adding to the credibility of the
21 profession, and at the same time addressing the public
22 interests, so I would say we have achieved an acceptable
23 method of self-regulation, and what we were faced with, as
24 we all know, opposing that was Government interference, and
25 we achieved it in a fashion which -- the acceptance of which

1 is best, I think, demonstrated by the obvious agreements
2 and acceptance of that self-regulatory process by the public
3 interests groups, particularly those in Washington, the
4 Congress and the Securities and Exchange Commission, the
5 Securities and Exchange Commission recently having advised
6 us that they do not intend to issue a separate report on
7 accounting or a separate report to the Congress on the
8 accounting profession for this year.

9 Now, that's the first time in the last
10 three, I think, that that is the case.

11 From the point of view from the member firms,
12 I think the ability to demonstrate that a firm is complying
13 with a Quality Control Standard and has successfully
14 completed a Peer Review, just as Marvin indicated in the
15 Practice Section, as to that firm's credibility, both with
16 the existing clients and with prospective clients, and in
17 some cases, I think, I'm sure that seal of approval, if you
18 will, has helped to combat the specter of displacement by
19 other firms, and I believe too that the quality of practice
20 and indeed the service to clients has improved as a result
21 of this whole process.

22 CHAIRMAN KANAGA: If the benefits are there
23 and really perceived to be there, B.Z., why is the membership
24 still at such a low level? I think there are only 225 or
25 so firms with one or more SEC clients that are members of the

1 SEC Practice Section?

2 MR. LEE: Well, that's a particularly
3 perplexing problem to the Section, and one that we have
4 been wrestling with.

5 There is -- we recently -- the Section
6 recently did a survey, and I have forgotten the number, 200
7 some odd firms were surveyed, 274 firms were surveyed, and
8 there was 60 responses that were received, and those
9 responses were -- well, the questions themselves were
10 pretty searching, but in addition we solicited comments,
11 and those comments were pretty extensive, and the long
12 and the short of the thing is that there is still a great
13 many firms who we think should be members of the SEC Practice
14 Section because they do have SEC clients who are simply
15 taking a wait and see attitude, and they are taking a wait
16 and see attitude generally, and this investigation, if you
17 will, that we made, the survey, because they, one, don't
18 understand Peer Review yet, two, have some reservation
19 still about Quality Control Procedures, and whether they do
20 or do not have them, and the question of cost, which again
21 Morry and Marv both alluded to.

22 On the positive side, Bill, the Section
23 represents some 96 percent of the sales volume of all SEC
24 Registrants, a very significant statistic, it represents
25 8,950 SEC registrants, roughly 91 percent of all publicly

1 held companies, and those are statistics which encourage
2 the Section, not that we don't continue to work very hard
3 on the issue of membership.

4 CHAIRMAN KANAGA: The membership has not
5 moved very much, has it, in the last couple of years?

6 MR. LEE: Not really. There's been some
7 gains, but there has been some offsetting losses, and we
8 are anxiously looking forward to 1982, because a lot of
9 the reviews which have been put off and put off will come
10 up in '82, and we are not sure what's going to happen in
11 '82 to membership as a result of the 11th hour of Peer
12 Review being upon those firms.

13 CHAIRMAN KANAGA: With regard to Peer Review,
14 Joe, do you think that B.Z.'s comment with regard to Peer
15 Review and the efficacy of the whole process, that the
16 public interest is being protected?

17 MR. LOFTUS: I do. We have had some 200
18 Peer Reviews to date from some 200 firms, 197, exactly, have
19 had their initial Peer Review. That number represents
20 some 8,500 SEC clients, and it represents 95 percent of
21 the some 8,900 SEC clients audited by member firms, and the
22 overall quality of these Peer Reviews have been good.

23 As Morry pointed out, we too have had some
24 modified reports, some adverse reports, but that's perhaps
25 ten or fifteen percent of the total, and in the large number

1 of instances it was dealing with inspection.

2 Now, suppose I should focus for a minute on
3 Sandy Burton's comment of yesterday.

4 You might recall Sandy pointed out that the
5 Public Oversight Board in its annual report mentioned that
6 there was no authoritative literature of what to do when an
7 examination which purportedly was conducted in accordance
8 with Generally Accepted Auditing Standards, turns out that
9 it was not, the so-called non-GAAS audits, or as one of my
10 friends on the Private Companies Peer Review Committee
11 refers to it, the Rolaid audits.

12 This question is -- it's not only an SEC
13 Practice Section question, it's a professional question,
14 and it's an old question, it goes back some 15 years. AUDSAC
15 and the Auditing Standards Board has a task force. That
16 doesn't mean there is no statement in Auditing Standards
17 that the Peer Review Committee has done nothing about it.

18 To the contrary, our reviews have turned out
19 some flagrant cases of non-GAAS examinations, and in those
20 instances we have been able to talk to the firm involved and
21 convince them to undertake what we call remedial action,
22 and remedial action in these cases generally has been an
23 accelerated Peer Review, additional continuing education,
24 things like that.

25 As a matter of fact, the one case that caused

1 the Public Oversight Board's concern, that firm had an
2 adverse report, and now they have had their accelerated
3 Peer Review, and they got a clean report, and they attended
4 additional continuing education and what have you, so the
5 process is working.

6 We are not hiding behind lack of authoritative
7 literature.

8 I also should point out the other side of the
9 coin, and that's financial statements which affirm reports
10 and indicates the financial statements are prepared in
11 accordance with Generally Accepted Accounting Principles.

12 The Peer Reviews have turned up examples
13 where that is not true, and we have had several instances
14 where as a result of a Peer Review the firm being reviewed
15 withdrew its original report on a set of financial
16 statements.

17 So we are striving, and I think succeeding
18 in protecting the public interests.

19 CHAIRMAN KANAGA: One thing that I would like
20 to interject, having sat in on the formation meetings of
21 the Division of Firms and the early discussions of Peer
22 Review, Sam, from the time we first started talking about
23 Peer Review back in 1973, the concept has consistently been
24 a concept of education, not a penal process.

25 It's been a focusing on how we can generate

1 remedial action if there are shortcomings that are exposed
2 by the Peer Review process, and the penal action right from
3 our early discussions, Sam, were only going to be brought
4 into play if a firm refused to respond to the deficiencies, the
5 correction of the deficiencies when they were brought to their
6 attention, and I believe that that is the effective objective
7 of the whole Peer Review process, because clearly we are
8 selecting engagements on a sample basis. We are not doing
9 all of them, we are not really focusing on engagements
10 themselves per se, but on the process of the firm and its
11 own internal workings.

12 There have been some talks that perception
13 is important, perception of the public, how they view the
14 process and how it's working.

15 What do you think the perception is as far as
16 the current status of Peer Review and the Public Oversight
17 Board's Review of the whole process, Joe?

18 MR. LOFTUS: The Public Oversight Board is
19 deeply involved in an oversight role. We had approximately
20 150 Peer Reviews in 1980. The Public Oversight Board looked
21 at the report, letters of comment, if any, on all 150, and
22 about a hundred of them, they looked at the work papers, and
23 about 50 of them included in that 100, they actually went
24 out on the scene and took part in the visitation,
25 observation, what have you.

1 They were complimentary in their annual
2 report, and generally discussions with the Chief Accountants
3 Office of the SEC, and they're in the process of doing
4 their monitoring of the 1980 reviews right now, and have been
5 very complimentary so far, so I think we are on target.

6 I think the process is working. We are trying
7 to enhance the profession in the eye of the public, and I
8 think we are succeeding.

9 CHAIRMAN KANAGA: How do you view the
10 agreement with the SEC on limited access?

11 MR. LOFTUS: The SEC has limited access to
12 the Peer Review working papers through the Public Oversight
13 Board commencing in 1981, the Reviews commencing right now.
14 It starts off with the premise, if you don't have a SEC
15 client, no SEC access, so it only runs to those firms that
16 have SEC clients.

17 We have a number of safeguards built into
18 this SEC access question in an attempt to protect the
19 confidentiality of the client.

20 The SEC has access only to certain Peer
21 Review work papers, not all of them. They can not keep
22 any copies. They have to represent before they undertake
23 their monitoring system that the Review is not being made
24 pursuant to a proceeding or investigation.

25 The SEC has indicated that in 1981 they

1 will follow a sampling technique. Their purpose is really
2 two-fold. One, to make sure that the Peer Review Program
3 is working, and two, that the POB is effectively monitoring
4 the Peer Review System.

5 So if their sample, which is going to be, I
6 think, all of the firms that they would review, all of the
7 work papers on those firms that have permanent seats on
8 the Executive Committee, 50 percent of the firms that have
9 between five and twenty-five SEC clients, and twenty five
10 percent of the firms that have one to four SEC clients,
11 that's where they're going to start. They do reserve the
12 right to change the sample, to increase or decrease the
13 number of firms, so that is on for 1981.

14 I'm sure that will give more credence to the
15 proposition that the profession is acting in the public's
16 interest.

17 CHAIRMAN KANAGA: In the past a number of
18 critics have jumped on the profession for its lack of
19 action in, quote, audit failure, major audit failures where
20 a lot of publicity has attended a corporate debacle, and
21 where the Institute has withheld movement of its disciplinary
22 machinery until litigation was done.

23 Rholan, we established the Special
24 Investigation Committee essentially as a mechanism to respond
25 to that criticism and to be in a position that if there is a

1 major failure someplace, to look at our total auditing
2 standard picture and see if the profession needs to react,
3 or in that particular circumstance, whether a firm has
4 to relook at its procedures. How is it doing?

5 MR. LARSON: Well, the Special Investigations
6 Committee was really the last segment of the self-regulation
7 process that was put into place. Peer Review was the
8 first order of business, and our Committee received its
9 charter really from the Executive Committee and got into
10 operation, held its first organizational meeting, the
11 first meeting in January of 1980, so we are only a little
12 less than a year and a half old.

13 As you indicated, Bill, this was the response
14 to the critics of the profession who contended that as a
15 profession we were not really getting involved in the
16 process in a disciplinary way potentially until all
17 litigation had ended.

18 I would like to reemphasize the point that
19 you made before, Bill, and that is that even though the
20 Special Investigations Committee does have that objective
21 in mind, ultimately, that we also are really organized to
22 deal on a prophylactic basis, primarily.

23 We have basically three objectives. The
24 first is to see that member firms who are involved in a
25 case where there is an alleged audit failure have actually

1 complied with Standards, that there is a system of quality
2 control, and that they have complied with professional
3 standards throughout.

4 Secondly, to be alert to instances where
5 professional standards are deficient, call those to the
6 attention of the proper Board or Committees.

7 Thirdly, we do have authority and
8 responsibility to recommend sanctions to the Executive
9 Committee in appropriate circumstances, but again I think
10 we are a part of the whole self-regulation process in the
11 sense that we are there to try to find areas where we can
12 prevent audit failures or to prevent recurrences, but
13 also are the disciplinary arm of the process.

14 CHAIRMAN KANAGA: How do you interface
15 with the Ethics Committee in that process, Rholan?

16 MR. LARSON: That was one of the early
17 assignments that we had. Ivan Bull said yesterday when he
18 was talking about his Committee, that it took some time to
19 just get organized and determine what the ground rules were.

20 Our Committee really has a very sensitive
21 role in that the firms themselves were setting up this
22 Committee through the Executive Committee to police their
23 own operations, and this obviously had a great sensitivity,
24 so we have proceeded very cautiously, and one of the areas,
25 as you suggested, Bill, was to provide for a good interface

1 with the Professional Ethics Division, avoid overlap, and
2 still provide for an effective interrelation there.

3 The Professional Ethics Division, of course,
4 deals only with individual members. The Division of Firms
5 has the authority to deal with firms, and that's kind of
6 the basic foundation stone of the interaction.

7 We have a division in the Ethics Division.
8 If a case involves a member firm and involves an SEC
9 registrant, our Committee only deals with the SEC registrant.
10 In those cases involving, though, if it's a member firm
11 involving an SEC registrant, the Professional Ethics
12 Division has agreed to not be involved until we have
13 completed our work.

14 There may be a case involving independent
15 behavioral standards where there could be concurrent
16 investigations, but that is contemplated to be rare.

17 When we complete our work, our files will
18 be available to the Professional Ethics Division so that
19 they can do some follow-up work after, and those are the
20 basic ground rules.

21 CHAIRMAN KANAGA: You're satisfied with the
22 progress to date?

23 MR. LARSON: Yes. I think we have made
24 good progress. One of the things that I am very pleased
25 with is the low number of cases on our Agenda.

1 The way in which we become involved is
2 through a requirement that a member firm must report any
3 litigation involving SEC clients, and to date we have had
4 14 cases reported in a little less than a year and a half,
5 and I think that speaks well -- I would like to say I believe
6 that the self-regulation process is going to have some
7 real good effect in terms of quality, but there may be some
8 other factors involved in that.

9 Any litigation that began prior to January
10 1st, 1979, is beyond our jurisdiction, so we had a period
11 of time when we were gathering steam, but only 14 cases
12 had been reported so far.

13 We are monitoring 11 of those, I believe we
14 have closed the files on three, and we are requesting
15 additional information from some of the firms and watching
16 developments to see if we should move into an investigation
17 status in those cases.

18 We have also just recently developed
19 criteria more specifically for when we should start to
20 investigate either a firm or a case.

21 I think we made some good progress, and one
22 of our objectives is not to attain high visibility. We
23 are delighted that so far our profile could be low, and I
24 think with good reason. We are not out on witch hunts, but
25 we are there to develop an even-handed approach, protect

1 the public interests, but also be fair to the members.

2 CHAIRMAN KANAGA: The key element in my mind
3 was that the mechanism would be in place if some major
4 debacle hit the front page and we'd have the machinery up
5 and running without having to run around and form an ad hoc
6 committee or other organization, that we'd have it in place
7 and operating.

8 I think that this is the key area insofar as
9 the perception of the public is concerned. The key area is
10 whether self-regulation in the disciplinary area will in
11 fact work. Obviously there have been some concerns by our
12 friends at the SEC as to the membership, some concerns as to
13 the access to work papers, Peer Review work papers, other
14 problems, but I think the major concern has been whether we
15 are in fact willed enough to take the steps to self-regulate
16 ourselves in the disciplinary area.

17 MR. LARSON: The real tests will come when
18 we have a major alleged audit failure, and at that point
19 we'll really be finding our way in terms of being able to
20 investigate and do our job while litigation is in process,
21 and that's a very difficult area.

22 CHAIRMAN KANAGA: Yes.

23 Well, Gentlemen, how do you see the
24 challenges for the next year to two years? B.Z., what
25 do you think in the SEC Practice Section?

1 MR. LEE: I think we have several challenges,
2 the first three of which were articulated for us by the
3 POB in their annual report, and the first in my mind, at
4 least, or the most significant of the three is the protection
5 of operation of the Special Investigations Committee when
6 and if it becomes necessary.

7 The other two areas that POB highlighted for
8 us in their report were the issue of membership. We have
9 spoken about that briefly. I did not mention, but I should
10 have, perhaps, that the Task Force has been appointed to
11 review all of the membership requirements and criteria to
12 see if they are affecting the number of members that are
13 coming in.

14 The third issue is the issue of a directory,
15 and the POB in their report did speak to the need in their
16 mind for the public to know, or the right for the public
17 to know who's a member of the Section and who in effect
18 therefore --

19 CHAIRMAN KANAGA: Who's passed Peer Reviews?

20 MR. LEE: Who's passed Peer Reviews, correct.
21 I should add that that is not an issue that the SEC Executive
22 Committee has encouraged the POB in. As a matter of fact,
23 quite to the contrary, we have tried to -- we have told
24 them all of the concerns that the Section and others have
25 on that issue, but there it is.

1 The other two areas are the issue of the
2 Peer Review Panel, which we have spoken about earlier, and
3 which we think we'll see a resolution soon, and finally the
4 effect of continuing monitoring for new developments,
5 particularly in the Washington scene and other public
6 industries.

7 CHAIRMAN KANAGA: Marvin, what do you see
8 on the Private Company Practice Section?

9 MR. STRAIT: Well, the PCPCS has a major
10 concern about the directory. We were particularly alarmed
11 to see that POB in their report indicated that they very
12 well may issue a directory with the membership in the SEC
13 Practice Section.

14 We are and have consistently been concerned
15 that if there was ever a directory issued, it should not
16 have any Section Designation Membership mentioned, and to
17 see that POB discussed the fact that they may issue a
18 directory just for the SEC Section was very alarming.

19 As a result of that I can report here that
20 in the last meeting of the PCPCS Committee we made the
21 decision to request that an item be on the fall Council
22 Meeting Agenda, and certainly we'll go through the Board
23 of Directors before that, to ask for the authorization of
24 a directory as of June of 1982, but that the Council be
25 firmly on record in fall of '81 that there would be a

1 directory, and it's our hope that the directory would not
2 have Section designation, it would just be those that are
3 members of the Division of Firms.

4 CHAIRMAN KANAGA: Could I just interject
5 there, Marvin? Maybe I ought to ask Don Schneeman, the way
6 it stands now Council is on record, isn't it? The last
7 action that was taken a year ago did say that Council
8 authorized that a directory be published in 1982? So that
9 the action that would be taken, it's in motion, I believe,
10 isn't it?

11 MR. LEE: I think that's correct.

12 CHAIRMAN KANAGA: Is that correct, Don?

13 MR. LEE: It did not deal with the issue of
14 Section Designation which is interesting, and I think one now
15 that PCPCS has taken the view on it, that the SEC Section
16 needs to deal with, and I will recommend that the Section
17 support the position of PCPCS, and I shouldn't be at all
18 surprised, Bill, if the POB won't accept that and be
19 satisfied with it as a decent compromise to what they know
20 is the very dicey proposition within the profession.

21 CHAIRMAN KANAGA: Excuse me. Marvin.

22 MR. STRAIT: Yes, I'm glad for the input.
23 Certainly then we would consider that as a fair solution to
24 the problem. We are concerned if it had Section Designation.

25 We, of course, in regard to the membership in

1 the PCPCS, I guess many people have noticed there is no
2 hard sale. We obviously want more members, and we want it
3 to grow. We think again that it's a function of the
4 marketplace. If we do our job right it will sell itself,
5 and finally a big effort is being made to continue the
6 effectiveness of the Technical Issues Committee. We have
7 enough feedback now to tell us it has been effective, it
8 is working, and we want to concentrate in that area.

9 CHAIRMAN KANAGA: Okay. Morry, do you have
10 anything to add to that from the standpoint of Peer Review?

11 MR. HOLLANDER: Well, the particular issue that
12 we are concerned with the Peer Review is that we've got a
13 pretty full plate for 1981. We've got some 650 reviews
14 that are scheduled to be done in 1981, and some about 450
15 firms have already indicated that they want these done
16 primarily in the third and fourth quarter.

17 We have another 150 to 180 firms who have
18 not indicated when they want their reviews scheduled.

19 We have taken the position that we are just
20 going to schedule these to the convenience of the
21 availability of reviewers, and the firm is going to have
22 to agree to that. If they find that unacceptable, then
23 they're going to have to make their own arrangements for
24 firm on firm reviews or what have you, so that's the case.

25 The other thing is making the reviews cost

1 effective. I mentioned before about the review not
2 necessarily focusing on engagement. In the PCPCS, and only
3 in the PCPCS we have kind of a different orientation to
4 reviews. It's called an engagement oriented review, and it
5 basically is an approach that focuses on the engagement,
6 the end result, as a more effective way of testing a firm's
7 quality control, so in that we have the firms with less
8 than 20 professionals, and those are members of PCPCS only.
9 That's our focus. We look at compliance with selected
10 areas of the nine elements of quality control, but primarily
11 do that by looking at engagements.

12 So that's the one way we have of trying to
13 control the cost, and another is what we have just recently
14 developed, our innovative approach, we call it a tag on
15 review.

16 One of the heavier cost elements is just the
17 travel cost, and if we have a team out in the field or in a
18 geographic area, what we basically would do is to tag on an
19 additional day for a member of that team to go and perform
20 a review in that same area, and then split those travel
21 costs with the two or more firms that are reviewed during
22 that period of time, and therefore contain the costs, but
23 those are the two areas that we are focusing on this year.

24 CHAIRMAN KANAGA: Joe, how about the SEC
25 Practice Section Peer Reviews?

1 MR. LOFTUS: Briefly, Bill, our one concern
2 is the excessive amount of oversight involved in the SEC
3 Peer Reviews. Right now certainly the white paper that
4 POB had is a big plus in this regard. I think if we are
5 able to convince the SEC that the Peer Review Program is
6 working, the POB monitoring of that program is working, that
7 they would decide not to do Peer Review work papers, that
8 would be a bigger plus, but I would say from the Peer Review
9 standpoint, the concern is going forward.

10 CHAIRMAN KANAGA: And Rholan..

11 MR. LARSON: Well, I guess I might just add
12 to what I said before. The fact that we have a -- that we
13 have identified two areas involving the potential need for
14 improvement in Standards within the profession, have
15 identified those with the appropriate Institute bodies.
16 I think that's significant.

17 We are in the process of moving ahead more
18 aggressively in terms of getting more information, involving
19 at least some of the cases that are on our Agenda, and even
20 though one of our objectives is not to raise our level of
21 visibility, I think there's no question but what that is
22 in the future, and I just might add, it's a good time to
23 discontinue my Chairmanship of that Committee, I think
24 it's been a good two years.

25 CHAIRMAN KANAGA: You have had the rare

1 privilege of being the first one in and first one out.

2 MR. LEE: No major cases to investigate.

3 CHAIRMAN KANAGA: Well, thank you, Gentlemen,
4 and I appreciate your time.

5 (Applause.)

6 CHAIRMAN KANAGA: The next item on the Agenda
7 is the election of the Nominating Committee for the Division
8 for CPA Firms.

9 When Council established the Division for
10 CPA Firms, it provided for the election by the Council of
11 a Nominating Committee for the Division.

12 The Nominating Committee selects candidates
13 for service on the Executive Committee of each of the
14 Sections in the Division.

15 With a view to geographic spread and to
16 representation by various sized firms, I would like to
17 propose the following candidates for election as members
18 of the Nominating Committee for the Division for CPA Firms:
19 Chairman, Samuel Derieux from Virginia, Charles Chazen,
20 California, James Luton, Oklahoma, John O'Hara, Pennsylvania,
21 Austin Robertson, Louisiana, Robert Siskin, Connecticut,
22 and Richard Thorsen, Minnesota.

23 Firms of each of these gentlemen are
24 represented in the membership of the Division in both
25 Sections. The candidates were discussed by the Board last

1 Friday, and the Board recommends that you approve these
2 names.

3 Do I have a motion that the individuals whose
4 names I've just read be nominated to serve on the Nominating
5 Committee of the Division for CPA Firms?

6 A MEMBER: So moved.

7 A MEMBER: Second.

8 CHAIRMAN KANAGA: Are there any further
9 nominees? I will entertain a motion that nominations be
10 closed.

11 Those in favor of the election of the Division
12 for CPA Firms Nominating Committee as proposed, signify by
13 saying aye. All opposed, like sign..

14 I would like at this point to take the
15 opportunity to introduce to this group the officer
16 nominees for 1981-82. I'll ask those who are here to come
17 forward to the platform so you can look at your leadership
18 for the forthcoming year.

19 For Treasurer, William Keast, New York. You
20 saw Bill yesterday, heard the good news that he brought to
21 you.

22 For Vice President, Sam Diamond from Alabama
23 and George Tornwall from Florida. We'll get somebody to
24 interpret for you gentlemen so you can understand what those
25 Yankees are saying. Arthur Dixon from New York is not here

1 with us.

2 For Vice Chairman, Rholan Larson of
3 Minnesota. I'll ask Rholan to come back up.

4 And for Chairman, George Anderson from
5 Montanna.

6 Give these gentlemen a hand.

7 (Applause.)

8 CHAIRMAN KANAGA: Their election will be on
9 the Agenda for the fall meeting. Nice to know you've got
10 all that support out there. Thank you.

11 The Report of the Committee on Bylaws.

12 About 18 months ago the Board authorized the
13 Chairman to appoint a Special Committee on Bylaws. A
14 number of amendments have been made on a piecemeal basis
15 over the years, and it had been some time since the Bylaws
16 had been given an overall and thorough-going study.

17 John Meinert, who at that time was just
18 leaving a term on the Board of Directors, and who is a
19 member of the Institute from industry, was asked to head
20 up the Special Committee.

21 The Committee's Report was brought to the
22 Board in December, and was on the Agenda for in-depth
23 discussion at the Regional Meetings this spring.

24 We have had time between the Regional
25 Meetings and our Board Meeting last Friday to incorporate

1 suggestions received from members of Council, and those
2 suggestions and amendments have been incorporated in the
3 text which you have in your kits.

4 The Board on Friday endorsed the final
5 proposal that you have in front of you.

6 I will now ask John Meinert, Chairman of the
7 Special Committee on Bylaws to introduce the proposal and
8 explain all of the changes which are being offered to you.

9 He's getting his last minute advice from Don.

10 Following his presentation, I will ask for
11 a motion that Council authorize the submission of the
12 proposals to the entire membership for a vote by mail
13 ballot.

14 John.

15

16 J O H N M E I N E R T

17

18 MR. MEINERT: In covering these proposed
19 changes in our Bylaws, I am reminded of the rather confused
20 speaker who made the statement that he wanted to say
21 something important before he started to talk.

22 Seriously, it is important how these
23 proposals were developed, and our Bylaws Committee started
24 its work back in 1979, as Bill mentioned.

25 I wish to express my appreciation to each

1 member of the Bylaws Committee. Most of them have extensive
2 experience in the Institute, and they are also broadly
3 representative of our membership.

4 They are George Anderson, who was just
5 introduced as our Chairman Nominee; and in fact I'd like to
6 read his address, which I think compares favorably with
7 anything on Wall Street in New York. The Anderson
8 ZurMuehlen Company, One North Last Chance Gulch, Main Street,
9 Helena, Montana. That's a Wall Street address.

10 Ray Lauver of Price Waterhouse, Bernie
11 Barnett of Seidman and Seidman, New York, and I think, let's
12 see, we have both Ray and George, of course, are here, and
13 I'm going to call on them for any help if I need any in
14 answering your questions. We have Paul Browner who has
15 his own firm in the Washington D.C.-Maryland area, Francis
16 Humphries a partner in Gamgame, Hunt, Trobbs, Gibbons and
17 Mooney in Charleston, South Carolina, and Peter Arnstein
18 of Giant Forge in San Francisco.

19 I also want to thank Don Schneeman for his
20 masterful job as our Staff member. Don had a great deal of
21 research to do over the last 18 months, and all the questions
22 we asked, some that you don't even see reflected here,
23 because they were turned down for various reasons, he was
24 helpful in producing this polished version of the Bylaws
25 we are voting on today, and it's not really true that the

1 only reason we are doing this is that buried in the center
2 of this is that Don finally become a member of Council.

3 Don said that he's not limping from any golf
4 accidents, because he's had his leg pulled so many times.

5 Another important facet to the proposed
6 Bylaw changes involved their discussion at the Regional
7 Meetings where questions were raised.

8 I attended these meetings, one of these
9 meetings myself, and also followed up on the changes at the
10 other meetings, and many of the suggestions are reflected
11 today in what you see before you in your kits.

12 I will review the Bylaws changes now, and
13 because certain changes also affect other resolutions, or the
14 changes in the front will affect the Resolutions in the back,
15 I would like to go all the way through, complete the review,
16 and then we'll proceed with discussions from the floor.
17 We will vote on the Bylaws as a package, although any
18 modifications which we vote on will be voted on separately,
19 and then as Bill said, on behalf of the Board it's approved,
20 which approved these Bylaw changes, and my Committee, a
21 resolution will be presented to approve the submission of
22 these changes to a vote of the Institute members.

23 Now, as you go through this, we'll go through
24 rather quickly, then come back with anything you feel you
25 want to cover later.

1 In addition to showing all additions in
2 italics and showing deletions, there are marginal notes
3 explaining the changes, so it would be a good idea to follow
4 those as we go along.

5 Now, the first one is as -- almost all of it
6 is italics. We cleared up the redundancy and tried to put
7 a definition in at the beginning where we did away with a
8 lot of the language in the back, and we were able to
9 simplify it.

10 One of the major changes from the original
11 draft that was suggested by our Regional Meeting is we
12 added "And other partner equivalents," on the sixth line,
13 so that we included that in the definition.

14 Going down to item 2.2 at the bottom, 2.1.2
15 at the bottom of the page, this is indicative of a small
16 change. Mostly I'll rush over these as we go along, but
17 the old wording said, "and who shall be admitted by the
18 Board of Directors."

19 Well, the Board really adopts the procedures
20 rather than do the admitting itself, therefore we added the
21 words, "under procedures adopted by the Board."

22 In general we feel we used more polished,
23 more accurate, more precise language.

24 Page two are some similar changes. On 2.3,
25 the Certificate of Membership, this will permit us to demand

1 a return of a certificate of nonpayment of dues.

2 I think that some people have said that a
3 member that drops out will leave the Certificate of
4 Membership hanging up, and this causes some dispute, you
5 don't have a termination date on it, although that may come
6 about someday, and we could use a termination date, but the
7 Bylaws Committee decided that rather than put that in at
8 this point we would allow the demand to be made of the
9 return of the certificate.

10 The next several are merely language changes
11 that are self-explanatory.

12 On page three, there is an exception for the
13 Board of Examiners. NASBA requested this change, and we
14 felt that we probably should not demand membership in the
15 Institute in order to be a member of the Board of Examiners.

16 The next page, on page four, I mentioned,
17 Don, already, public members are already voted in and are
18 members of Council, and this change would include all
19 members of the Board of Directors of the Institute are
20 members of Council.

21 On page -- many of these are clarifying
22 language changes, going back to the definitions, we are
23 able to cross out certain words because we defined the
24 other words to be all inclusive in the front.

25 Going to page five, there's here another

1 change that was recommended at the Regional Council Meeting.
2 We tried to distinguish between Staff Vice Presidents who
3 served as paid Vice Presidents, we used the word volunteer,
4 and other people wanted to use elected and so on, and we
5 finally decided on the word Vice Presidents, because all the
6 Vice Presidents that are elected by Council or by
7 membership are on the Board, whereas the Staff Vice
8 Presidents are not, so this was a good suggestion, and we
9 made that.

10 Going to the others, again very simple
11 changes.

12 Going to page six, we made a change on the --
13 really because of the size of the AICPA and the Nominations
14 Committee, we felt that the Representation should be
15 larger, and one of the best ways to do that is to enlarge
16 the Nominating Committee and reflect the AICPA growth in
17 membership, and this is what we have done here, so that
18 means that in the future we will have 11 members instead of
19 7.

20 The bottom of the page, there's a reference
21 back to Section 3.2.5, and that change reflects the change
22 in Section 3.2.5.

23 We got to the bottom of page seven, and we
24 worked on this indemnification at the top of page eight, and
25 you can see it's all in italics. We changed the entire thing,

1 and we think it does a better job and eliminates the
2 deficiencies that were in our present clause.

3 The next major one is over on page ten, 5.3.1.
4 We raised the Quorum to 500. Some people asked why we don't
5 set that as a percentage, and we felt that that could be
6 risky, and in the first place we don't know that over the
7 years the same percentage will be attending the Institute
8 Annual Meetings. Secondly we have checked our records, and
9 we find that 500 is adequate, and we do always have 500 at
10 the Meetings, and we'd like to have as high a quorum as
11 possible and still not risk having an Annual Meeting without
12 a quorum, so this was a compromise, the 500.

13 The next item is that we want 11 members of
14 the Board in order to, you know, have a quorum for the
15 Board, because the Board has been enlarged to the public
16 members, when it grew from 18 to 21, and therefore 11 is
17 needed to have a majority of the 21, and we want a majority
18 to be a quorum.

19 I think that one at the top of page 12,
20 this was reflected by several states, requested by several
21 states. I won't go into all the details, because the
22 original is a bit complicated, but the important thing is
23 that this new wording, if you read it, you'll find that the
24 states now have complete flexibility in filling of Council
25 vacancies, so that they can stagger them evenly over whatever

1 cycle they select.

2 I think the change would be on page 13. We
3 felt that there should be relevant background information
4 added for the nominees.

5 On page 14, this is a significant change.
6 On 6.3.1, on the Public members, we felt that if a Public
7 member is doing a good job, getting his feet wet and
8 understanding the Council during the first three years,
9 understanding the Institute, we would like for those Public
10 members to be around to serve a second three year term and
11 get the use of that experience. On the other hand, we
12 rejected continuation for a third term, so we are now being
13 limited to six years.

14 The bottom of page 15, the words
15 "administration reprimand" are inserted, because the
16 words, "censure or admonition" have been deleted by Council,
17 and this modernizes the words.

18 On the bottom of page 16, Don informs us
19 that the definition of a felony as we say here is no longer
20 standard among the states, and we discussed this at some
21 length, and we decided that punishment by imprisonment for
22 more than one year was a clear, precise definition, and
23 neither too long, nor too short.

24 The next major change really is going into
25 the Resolutions. The rest of this book are just language

1 changes that are self-explanatory. Some of those we'll get
2 into later, some changes on -- in the discipline of a member
3 by a trial board, under Section 7.4 at the top of page 18
4 where it says, "Response of Interrogatories are requested,"
5 we'll cover that again in the resolutions.

6 In the Resolutions, the major changes come
7 under page 21, Section 3.5. You notice that the term of
8 office in the italics in the first paragraph state,
9 "the term of the President and Secretary shall be
10 determined by the Board of Directors."

11 There is no specific term. The Board can
12 terminate them at any time. The Board will act for us in
13 that regard, and again as you read down, you'll find that
14 this reflects the difference between a Staff Vice President
15 and a Board Vice President.

16 Next major change, all on page 22, are
17 merely proper nomenclature that we use today and deleting
18 the old wording.

19 On page 23, because we enlarge the Nominating
20 Committee to 11, we request that the number of candidates
21 for the Nominating Committee be increased to two. This is
22 in line with, of course, enforcing a broader selection
23 from our membership.

24 We have a section at the -- I'll leave open
25 for discussion later, but this brings us the Administrative

1 Reprimand, again at the top of page 24, and I won't read
2 it, the wording is there for you to study, but you'll note
3 later there's a section deleted at the end of 7.4, and this
4 in effect replaces it.

5 Bill, you want to talk on that?

6 Almost all the rest of the wording are
7 slight changes here and there, modernizing registered and
8 board certified, continuing professional education,
9 professional development.

10 On page 33, there is no Vice Chairman of the
11 Trial Board, so we deleted those words, and on that soft
12 note we end.

13 I think that we will first -- I will make the
14 motion to authorize a mail ballot, and then we'll have a
15 second to that motion, and then we'll open it up for
16 discussion.

17 So Mr. Chairman, I move that Council
18 authorize the mail ballot of the membership seeking adoption
19 of the Bylaw Provisions contained in the draft in your kits,
20 and that Council adopt the implementing resolution
21 contained in the draft contingent on adoption of the
22 proposed revised Bylaws by the membership.

23 A MEMBER: Second.

24 CHAIRMAN KANAGA: Open for discussion. Martin.

25 MR. ELLARD: Martin Ellard from Georgia.

1 I'd like to discuss on page 23, Section 3.6.2
2 concerning the Nominations Committee. I favor increasing
3 this committee from seven to eleven; however, I feel that
4 we should also increase the number that is permissible
5 to be on the Committee from the Council, from three to five.
6 This was discussed at our Regional Council Meeting, and I
7 have discussed it with many people.

8 This would still not give a majority of the
9 Nominations Committee Membership to the members of Council.

10 It was my privilege and honor to serve on the
11 present Nominations Committee, and I hope you all like the
12 fellows we nominated, but it's very helpful to the
13 Nominations Committee to have Council members on the
14 Nominations Committee, and if we increase this to eleven, I
15 don't think it's unfair to anyone if we have not more than
16 five that may serve that are members of Council. That's
17 still a minority vote, and I'm going off the Council this
18 year after seven years and not running for anything, but I
19 really think Council members are most informed of what is
20 going on of anyone.

21 I know we come from Georgia and pay \$115
22 a night and get scrambled eggs, that we could get the hen
23 and the egg for in Georgia.

24 I feel like having five out of eleven on the
25 Nominations Committee is not too much to ask. I really feel

1 like we have worked for it.

2 MR. MEINERT: You had the experience and
3 the hotel had your money.

4 MR. ELLARD: So I would strongly urge that
5 this be changed so that no more than five could be members
6 of Council.

7 MR. MEINERT: Let me respond to that.

8 There's no question that we want experienced
9 members on the Nominating Committee, that's a true
10 statement; however, I want to point out that previous
11 Council members, previous Directors, previous whatever,
12 can serve on the Nominating, and do serve on the Nominating
13 Committee.

14 What this was meant to do, and we discussed
15 this at great length and covered the question you have
16 brought up, this was meant to say that someone who is
17 serving currently on Council, the number of those ought to
18 be severely limited, and that we ought to try to make the
19 Nominating Committee more broadly representative of our
20 membership, and we have been criticized in effect for ap-
21 pointing each other or for nominating each other.

22 MR. ELLARD: Who has done the criticizing,
23 because we are the most representative.

24 MR. MEINERT: Largely the younger members.
25 It was sort of like the old timers have control of things,

1 and how can we open this up.

2 Now, we felt that we were balancing two
3 things here. One would be that we would limit the number
4 of present Council members, but still gaining the
5 experience and still have the old timers heavily represented
6 by having former Council members, as you say, like yourself,
7 that can serve on the Nominating Committee, and this was
8 the balance that we traded off.

9 MR. ELLARD: I'm all for the old timers,
10 because I am fixing to become one, but I think the current
11 Council members are more -- know more of what is going on
12 than the so-called old timers, and it's just important
13 that our leadership be representative, and I think the
14 elected members of Council are the closest to our members
15 of any of our officers.

16 I won't say any more, but I think it's
17 ridiculous not to have five out of eleven. That doesn't
18 mean they're going to nominate all five, it's possible,
19 so I would like to propose that that be increased to five
20 from three.

21 A MEMBER: Second.

22 MR. MEINERT: I think that was made as a
23 motion.

24 MR. ELLARD: Yes.

25 A MEMBER: I second.

1 CHAIRMAN KANAGA: Second? All right. Now,
2 we'll have discussion on that particular modification.

3 MR. MEINERT: Any young members here, or am
4 I right? Think about it?

5 CHAIRMAN KANAGA: Any non-members of Council,
6 would you like to speak? Any other people have views on
7 the matter? Tom.

8 MR. HOLTON: Since they called for a young
9 member, I want to support the member of Council from
10 Georgia. I think it's a good idea.

11 A MEMBER: Question.

12 MR. HEPP: Since Tom claimed to be young, I
13 will claim to be young too. I also would like to support
14 the motion of changing it to five. I think it's important
15 to recognize what we are doing here is suggesting that the
16 Resolution -- that the Bylaws be changed to say no more than
17 five. We are not saying that five must come from Council,
18 and I agree wholeheartedly with the concepts that we should
19 have the opportunity of picking more experienced people
20 with the increased number, and the experienced people are
21 more likely to be on Council, so I would like to support
22 the motion.

23 CHAIRMAN KANAGA: All right. We'll call
24 for --

25 MR. BROUT: In the absence of anybody else

1 speaking against the question, I would like to say that
2 the Committee did consider this, it came out with its
3 conclusions, and they gave it a good deal more thought than
4 we have given to the motion which is made now, and I find
5 that I rarely will vote against a Committee which has
6 considered the question at some length and deliberated it
7 unless there's a clear and convincing reason to overcome
8 their vote.

9 MR. MEINERT: Would Ray Lauver or George
10 Anderson like to speak on that? Ray.

11 MR. LAUVER: You've covered the activities
12 of the Committee as far as I'm concerned.

13 MR. MEINERT: I'm concerned, frankly, that
14 the people that, you know, I have been a member of Council
15 for ten years, I'm not concerned about this personally, but
16 maybe I'm the old timer by now, but I'm concerned how the
17 younger members do react to this, and it is -- I think
18 there's a tendency when you do have a limit of five, even
19 though we say that we can nominate a lesser number, that
20 we have a tendency to in effect nominate ourselves, and
21 that was considered somewhat dangerous, but the question
22 has been called for, and if you understand, the Committee
23 considered this, and we felt it should be limited. On the
24 other hand, we recognize that people like to have as many
25 from Council as possible, but again this does not permit any

1 experienced past member from being nominated, I want to
2 emphasize that they can be all eight of them.

3 Okay. Call for the question. How many in
4 favor of changing it to no more than five? Down. And how
5 many would like it to be no more than three as presently
6 proposed?

7 CHAIRMAN KANAGA: I think we better have a
8 count. Why don't all of those that are in favor of going
9 to five stand, and then we can just count off. It looked
10 pretty close.

11 Start right down here.

12 (Whereupon, the voting members counted to
13 91.)

14 CHAIRMAN KANAGA: All that would like to
15 stay at three, please rise. I'll start off with number one
16 here.

17 MR. MEINERT: No, I'm one. You're two.

18 (Whereupon, the voting members counted to
19 77.)

20 CHAIRMAN KANAGA: And you're 78. Did you get
21 counted?

22 Three it remains.

23 MR. MEINERT: Moving right on to less
24 controversial issues.

25 CHAIRMAN KANAGA: Charlie:

1 MR. ZLATKOVICH: Charlie Zlatkovich, Texas.
2 Don, I'm addressing the matter that is raised on pages
3 three and six. Perhaps there's some background about it
4 that I don't understand, but superficially I fail to
5 perceive why a person who is a CPA and who lacks sufficient
6 interest to join the American Institute and thereby in effect
7 because he or she helps determines who passes the CPA
8 exam and therefore who can become a member, why there
9 should be a provision in respect to accountants.

10 If it related to attorneys, because there is
11 a law section of the exam, I could understand that provision,
12 but I really fail to understand why an exception is made
13 for CPA's who don't join the Institute.

14 MR. MEINERT: I'm going to ask Don to
15 respond to that.

16 MR. SCHNEEMAN: This request came to us
17 from a public member of the California Board of Accountancy,
18 and with the enforcement of the NASBA, National Association
19 of State Boards of Accountancy, the point that was raised
20 by the Public member was that the State Boards of Accountancy
21 must rely on the Institute for the examination by which
22 they administer the accountancy laws, and they felt that it
23 was improper that those creating the exam, that is the Board
24 of Examiners, had to be necessarily members of AICPA.

25 I think their point is, you have a public body

1 that is wholly reliant upon an organization, and that the
2 membership as a requirement for the Board of Examiners was
3 improper.

4 The proposal here is not to put a non-member
5 of the Institute on the Board of Examiners, the proposal
6 is only to make it possible for such a person to serve.

7 MR. DERIEUX: May I ask a question on the
8 same subject? Why is it worded that he has passed the
9 CPA exam rather than he's a Certified Public Accountant? If
10 there's a distinction there, I just wondered the reason for
11 that.

12 MR. SCHNEEMAN: Well, the provision, Sam,
13 is that he not only passed the CPA exam, but that he also
14 have a current CPA Certificate. There was some confusion
15 in our Regional Meetings on that point. I did go back to
16 members of the Bylaws Committee, and they said, yes, it
17 should be both.

18 MR. DERIEUX: Does it say that?

19 MR. SCHNEEMAN: Yes.

20 MR. MEINERT: What you're really asking, Sam,
21 is in the notation, the marginal one which is not as precise
22 as the wording itself.

23 MR. DERIEUX: I see on page six, it covers
24 it.

25 MR. SCHNEEMAN: Yes. In the draft at the

1 Regional Council Meetings we just had "having passed the
2 CPA examination."

3 A number of members of Council felt that
4 it should be broader than that. I did go back to the
5 Bylaws Committee, and they agreed that both criteria
6 should be met, but once again we did go back to NASBA
7 with this proposal, and they felt that it adequately
8 responded to their concerns and the appointment to this
9 Board of Examiners as a Senior Committee is made by the
10 President, by the Chairman of the Institute with the
11 concurrence of the Board of Directors, so there are all
12 sorts of checks and balances in there before such a person
13 would be appointed to the Board of Examiners.

14 CHAIRMAN KANAGA; Yes, sir.

15 MR. KEVER: Ken Kever. Being from
16 California, we are concerned about the criminal convictions
17 of members.

18 On page 16, Article 7.3.1.1, I'm not sure
19 if it's very important, but I'm confused under your
20 presentation to indicate that the dropping of felony clause
21 was because of inconsistencies among states, the jurisdictions.

22 Seems to me we'd have the same inconsistency
23 possibly on determining whether a conviction of a crime
24 punishable by imprisonment for more than one year. Well,
25 that would be the result of state jurisdictions as well, and

1 I'm not sure what improvement we are gaining out of this
2 amendment.

3 MR. SCHNEEMAN: John, if I can. The
4 automatic provisions were adopted, I think, in 1967 on the
5 request of the Trial Board, and because the Trail Board
6 at the time was receiving a great number of cases dealing
7 with criminal convictions, almost all of which resulted
8 in expulsion of the member.

9 At the time that this was discussed by
10 the Council in '67 there was concern from some members
11 that in some states vehicular homicide, for example, is a
12 felony, and the Council decided at that time that if the
13 State choose to describe its more serious crime as a
14 felony, that that was what we would use.

15 Now, subsequent to that a number of states
16 have dropped the categories of misdemeanor and felony, and
17 they have adopted categories of crimes, of offenses of the
18 first, second and third degree which makes it very difficult
19 to apply this wording of the Bylaws.

20 What the Bylaws Committee has done is to take
21 the standard definition of felony, which is imprisonment
22 for more than one year, and misdemeanor being imprisonment
23 for less than one year, and put the definition in here
24 instead of use of the word felony, and in those states
25 where they have offenses rather than felonies, this would fit

1 very well.

2 So it's a technical change, it is not a
3 change in substance.

4 Bob Harden, I think, was approaching.

5 MR. HARDEN: Bob Harden, South Carolina.

6 I have a concern with the same section of what the Committee
7 has done. I have no complaint with that. I'm concerned
8 with the diversity of our state and territorial laws and
9 the types of crimes that might be covered by this automatic
10 suspension.

11 For instance, if one of your staff men or
12 maybe even a senior partner found a friendly pot dealer
13 that had some heavy scales who gave him a spare gram, the
14 penalty for possession of more than one ounce of marijuana
15 is very severe in many jurisdictions. It's even very
16 severe in lesser jurisdictions.

17 We are being openly harsh. I think we've
18 got a great sense of fairness among us as members of
19 Council, and we have somebody, I'm not sure we have zeroed
20 in on them, whether it be felony or whether it be punishment
21 by more than one year, we have this as an automatic
22 provision of suspension and termination of membership.

23 We are not that severe when one loses
24 his certificate.

25 In Section 7.3.2, it sets up a procedure for

1 the suspension and revocation, termination of membership
2 upon the loss of a CPA Certificate if it's been revoked by
3 the State, but yet it goes on to state, " Council shall
4 provide for the consideration and disposition by the Trial
5 Board, with or without hearing, of a timely written
6 petition of any member that his membership should not be
7 suspended or terminated pursuant to this Section."

8 All I beg of you in a sense of fairness is
9 that we do the same thing with these diverse crimes that
10 may be so different in Puerto Rico and South Carolina, or
11 in Connecticut or Alaska, or wherever, that we give the
12 person the same opportunity to petition the Trial Board
13 for hearing.

14 I hope they will terminate them in most
15 of these cases, I'm not here appealing for coddling of
16 criminals, but he should have that right. I think it's
17 basically the right to a hearing before the Trial Board if
18 he so desires, which is also given to him in the case of
19 CPA Certificate Removal, which I think is a lot of times
20 more important than whatever this was.

21 MR. MEINERT: Do you think he should be
22 suspended before the Hearing is heard or meanwhile?

23 MR. HARDEN: Yes, I would have no problem
24 with that, Mr. Chairman, being suspended until hearing, no
25 problem at all. I think the way to clean this up would be

1 to leave the language as it is in 7.3.1.1, and add to that
2 language what is at the end of 7.3.2, which would read like
3 this, and I so move: "Provided, however, that the Council
4 shall provide for a consideration and disposition by the
5 Trial Board, with or without hearing, of a timely written
6 petition of any member that his membership should not be
7 suspended or terminated --" perhaps no, let's change
8 that. "That his membership shall not be terminated
9 pursuant to this section, 7.2.1.1, which would lead to
10 suspension there, but allow him time to appeal for hearing
11 before termination."

12 That's my motion.

13 MR. SCHNEEMAN: Some of these are continuing
14 resolutions, because they get all messed up if we do this,
15 but if we can consider the main motion and see what we need
16 to do with the Resolution. Thank you.

17 A MEMBER: Second.

18 MR. SCHNEEMAN: Is there a second?

19 A MEMBER: Second.

20 MR. SCHNEEMAN: Discussion? I would make
21 one observation; that the reason for the difference in
22 treatment between conviction of felony, which is unappealable,
23 and unreviewable under 7.3 and the suspension or termination
24 of membership on loss of a CPA Certificate under 7.3.2 is
25 that there was concern expressed at the Council Meetings in

1 '67 that they had no assurance that, number one, that all
2 State Boards would allow due process and follow due process
3 in the course of suspending or revoking a certificate.
4 Number two, they felt that some State Boards might revoke
5 a certificate for, let's say, nonpayment of a statutory
6 fee when a member has already moved out of the State and
7 he chooses not to contest the revocation, so there was a
8 difference between it.

9 The Council felt at the time that the
10 member was afforded due process.

11 I think Bob's point is a little different
12 than that, because he's talking about the nature of the
13 crime or the offense rather than that should be subject to
14 review by the Hearing Panel or the Trial Board, rather than
15 a question of whether or not full appeals have been taken
16 or due process followed.

17 MR. HARDEN: Don, I might respond just that
18 this is not the only inconsistency. You see in Section
19 7.4 which provides for full hearings, a man's entitled to a
20 hearing if he's declared by a court of competent jurisdiction
21 to have committed any fraud, he's entitled to a hearing, if
22 he's been found guilty of an act discreditable to the
23 profession or criminal offense which tends to discredit the
24 profession.

25 MR. MEINERT: I might mention what you're

1 adding here or commenting on has always existed.

2 MR. HARDEN: I understand that.

3 MR. MEINERT: I know you do, and I want to
4 point out that all we did was define felony as more than
5 one year. It was not -- we didn't make any changes, we
6 were consistent in this entire -- in the continuation of
7 what you just disliked.

8 On the other hand, I want to ask you a
9 question about termination, if someone is terminated
10 after a hearing, at what point can they reapply?

11 MR. SCHNEEMAN: An expelled or a terminated
12 member can apply for readmission at any time three years
13 following the effective date of the expulsion or termination,
14 at any time after three years.

15 Now, prior to the time that the automatic
16 provisions were put in it, there was no way to get back in
17 the Institute. If a member was expelled, he was expelled
18 forever, and a part of the package that was presented to
19 Council putting in the automatic termination and expulsion
20 in '67 was that members could be readmitted in three years.
21 The reason for the three years is that a Trial Board can
22 only suspend for two years, and they felt that a period of
23 expulsion should be something more meaningful than the
24 maximum period of suspension which is two years, so they
25 settled on three years.

1 MR. MEINERT: Thank you.

2 CHAIRMAN KANAGA: You think he ought to be
3 suspended during the time he's in jail?

4 MR. HARDEN: I think so. I think my motion
5 would do that, Mr. Chairman, and responding to your earlier
6 comment, I heartily approve of what the Bylaws Committee
7 did, but my motion is different from the Bylaws Committee's.
8 I would think that if I had ever studied the one that said
9 felony, and I would have had the same comment.

10 Thank you.

11 MR. SCHNEEMAN: There's a motion and a
12 second. I should say that Bob did talk to me this morning
13 before the Meeting. There are a couple of various small
14 changes that would have to be made in the Council Resolution
15 which is on page 29, and if you'll look at the second
16 complete paragraph, the one beginning, "That the operation
17 of paragraph three and four of this resolution shall become
18 postponed," this is the one that permits the review or
19 request for review by the Trial Board. We'd just insert in
20 their the operation of paragraphs one, two, three and four,
21 and that would cover the conviction sections, so I read
22 Bob's motion to include that change.

23 MR. MEINERT: Sam.

24 MR. DERIEUX: One other point I'd like to
25 have clarified, something said about the term he was in jail.

1 This says punishable by one year. He could have gotten a
2 30 day suspended sentence and this would automatically come
3 into play, would it not?

4 MR. SCHNEEMAN: That's right, that's right,
5 it's the conviction, Sam, it's the classification of the
6 crime by the possibility of incarceration rather than
7 whether or not the man was ever in prison.

8 MR. DERIEUX: So if he could have been
9 punished by one year in jail, then he would automatically
10 be terminated, even though the Judge suspended his sentence
11 or gave him a 30 day sentence?

12 MR. SCHNEEMAN: That's right. The word
13 is punishable.

14 MR. MEINERT: I thought you were going to
15 suggest that the wording be changed to punishment.

16 MR. KESSLER: Lou Kessler, Florida.

17 Don, as you know, you and I have -- when I
18 was Chairman of the Trial Board, we worked on this automatic
19 suspension and expulsion business because we were busy
20 running around the country on automatic cases where the
21 fellow filed a tax return and was put in jail, and I think
22 the possibility of getting back in is sufficient, and I
23 would be opposed to the motion, but the reason I was trying
24 to get on my feet earlier, I want to make a comment on
25 Charlie's proposal, if it is not in order, not making a

1 motion or saying anything that affects the parliamentary
2 procedure, but I just urge the Council members to keep in
3 mind the fact that with consumerism and with sunset review
4 and with what have you, we are getting -- we are drifting
5 slowly to putting more and more of the examination and
6 regulation procedures in the hands of non-CPA's, and I only
7 have to talk to you about California, so on, so I can't
8 find any reason to object to the language in 3.2.5 that
9 Charlie referred to, but I just urge you to keep in mind
10 the direction that we might be going in all of this.

11 Thank you.

12 CHAIRMAN KANAGA: Is there any further
13 discussion?

14 MR. MEINERT: Have you called for the
15 question? If not --

16 MR. SCHNEEMAN: Somebody was rising.

17 MR. KNUDSEN: I'm Gerry Knudsen from North
18 Dakota, and on just one clarifying language change on page
19 25, it appears that the directions were not quite clear.

20 MR. SCHNEEMAN: Is this on Bob Harden's
21 motion?

22 MR. MEINERT: We have to have a vote on the
23 question unless you're talking to the question. We are on
24 Bob Harden's motion.

25 MR. KNUDSEN: I apologize.

1 MR. MEINERT: Call for the question now.

2 A MEMBER: Question.

3 MR. MEINERT: First, how many would propose
4 that we leave the language the way it is in your kits right
5 now? I'm sorry, we've got to vote the other way.

6 How many in favor of changing it as moved?

7 Looks like it's going to be close again.

8 Repeat the motion.

9 MR. SCHNEEMAN: The motion is to, on page
10 16, Section 7.3.1.1, to add at the end of the sentence,
11 punishable by imprisonment for more than one year, the
12 phrase, provided, however, that Council shall provide for
13 the consideration and disposition by the Trial Board, with
14 or without hearing, of a timely written petition by any
15 member that his membership not be suspended or terminated
16 pursuant to Section 7.3.1.1.

17 MR. HARDEN: I changed that to eliminate the
18 suspended, the suspension would happen, just termination.

19 MR. SCHNEEMAN: Okay.

20 CHAIRMAN KANAGA: Would that group stand
21 who are in favor of the motion? Why don't we start here.

22 (Whereupon, the voting members then counted
23 to 113.)

24 CHAIRMAN KANAGA: I believe that's a majority
25 of the group here. Why don't we have a raise of hands, all

1 that oppose that motion? Yeah, the ayes have it.

2 Are there any other comments?

3 MR. KNUDSEN: Gerry Knudsen from Grand
4 Forks. I apologize for being out of order.

5 Referring again to page 25, clarifying change,
6 I wonder if it is intended, the section referring to the
7 National Review Board, says, "All members on the National
8 Review Board shall also be members of their societies, and
9 no two or more members of the National Review Board shall
10 have their principal place of practice," no two or more,
11 doesn't sound like a limitation to me.

12 I thought probably they intended to state,
13 not more than two members of the National Review Board
14 shall have their place of practice, and then continuing
15 on that same sentence. I think any one should have been
16 deleted so that it would say, principal place of practice
17 in the same state.

18 MR. SCHNEEMAN: Excellent proofreading. Our
19 strike-through artist missed that one.

20 If you look at the page, it's almost directly
21 opposite, clarifying language change in the margin. Read
22 across, and the line says, two or more members of the
23 National Review Board shall have their principal place of
24 practice, and strike-through any one.

25 MR. MEINERT: I think we should have caught

1 that and crossed it out and had a line by it, and we should
2 have mentioned that.

3 I think -- well, the first comment, I think
4 means the same thing, no two or more, and we were trying
5 to -- it was a grammatical matter with having their principal
6 place of practice, and I think the wording is exactly the
7 same. Six of one, half dozen of the other.

8 Don, do you have any preference on the
9 other wording?

10 MR. SCHNEEMAN: No, this was the Committee's
11 idea, and I apologize to the Committee.

12 MR. MEINERT: Wait a minute. You wrote it.
13 The intent is identical. The question is
14 whether-- which is clearer wording.

15 MR. KNUDSEN: This is redundant but not
16 contradictory.

17 MR. MEINERT: That's right.

18 CHAIRMAN KANAGA: Are there any other motions?
19 If not we'll -- Gerry.

20 MR. HEPP: In the definitions, I'm concerned
21 about the definition for partner identified on page one.
22 I think that there are individuals in firms referred to as
23 principals as a matter of stature. They are not CPA's,
24 they're not part of the partnership per se, and this raises
25 a question as to the use of the specific term principal, and

1 I think in the long run it's going to lead to problems
2 which we should try to avoid, and I would suggest and so
3 move, that that definition be revised to state, "Partners
4 shall be understood to include partner equivalents
5 including any shareholders or other equity owners of a
6 professional corporation or association."

7 That would then eliminate trying to zero
8 in on one specific term which I think creates problems.

9 CHAIRMAN KANAGA: You're suggesting that
10 the words principal and other be struck?

11 MR. HEPP: That those three words be struck,
12 and then the word, and following equivalent be struck, and
13 inserting in there, including, and then I think the words
14 would be clear, that the intent is the partners and the
15 owners of the firm.

16 MR. MEINERT: I think if you have to include --
17 you have to include that, don't you think, you need to
18 have either the word -- I understand your point on
19 principals, in some cases you're saying there may be
20 partner equivalents and other cases it's not.

21 MR. SCHNEEMAN: If you just strike the
22 three words principals and other, Gerry, you've done it.
23 It would then say, partner shall be understood to include
24 partner equivalents and any shareholder or any other
25 equity owner.

1 MR. HEPP: I would accept that.

2 MR. MEINERT: Probably ought to remove the
3 comma.

4 CHAIRMAN KANAGA: Is there a second?

5 A MEMBER: Second.

6 CHAIRMAN KANAGA: Any discussion?

7 A MEMBER: Question.

8 CHAIRMAN KANAGA: All in favor. Opposed?

9 Can we then move to a vote on the entire
10 package with these amendments? If we can, all those in
11 favor. All opposed?

12 Then we can have a break for coffee after
13 Stan Scott, who will be wildly waving his arms someplace
14 here, makes some announcements.

15 MR. SCOTT: Just like to give you a quick
16 report on the golf match yesterday afternoon.

17 We had 82 hardy souls that appeared for this
18 tournament, and they're sharing a pot of \$300 with third
19 prize being 60, second prize, 90, and the first prize, \$150.

20 We had a tie for the third place between Tom
21 Holton's team and Harrison Edwards' team, and Tom Holton's
22 team won on the sixteenth hole play-off by a birdie on number
23 sixteen.

24 The second team winner was Ivan Bull's team.
25 The first team winner was Charlie Keller's team, and if those

1 individuals will see me after or during the coffee break,
2 I'll hand the money out to them and you can get it to your
3 team.

4 CHAIRMAN KANAGA: Thank you.

5 I would like to reconvene at 11:20. We are
6 running a little bit behind time and I want to thank John
7 Meinert and his Committee.

8 (Whereupon, the morning coffee break was then
9 taken.)

10 CHAIRMAN KANAGA: Gentlemen, if you would all
11 take your seats.

12 The next item on our Agenda is a progress
13 report on the Special Committee on Committee Appointments.

14 Concern has been expressed from time to time
15 about the entire Committee Appointment process. That
16 process was commented on in the Derieux Committee Report,
17 and Marvin Stone graciously agreed to chair a Special
18 Committee to look into the Institute's Committee Appointment
19 Process and recommend changes for improvement.

20 The Committee has not yet formally reported
21 to the Board of Directors, but we have asked Marvin to give
22 us a progress report on the Committee's activities.

23 Marvin.

24

25

(Next page, please.)

1 M A R V I N S T O N E

2

3 MR. STONE: I have the Chairman's notes
4 here with the time schedule, and I see I'm done already.

5 (Applause.)

6 MR. STONE: I certainly know how to get
7 applause.

8 A number of years ago John Gardner wrote a
9 book called "Self Renewal." In that book, some of you
10 may recall, he indicated that an organization on its last
11 leg, just before it collapsed, would appoint a group to
12 write an organizational or an operational manual.

13 I wonder what John Gardner would have to
14 say about a Committee chosen to investigate the Committee
15 Appointment process.

16 I must admit that this went through my mind
17 at the beginning, but as our Committee worked diligently
18 over this past several months on the subject, we have come
19 to the conclusion that it was indeed a worthwhile undertaking.

20 We have resisted the temptation, thus far,
21 to recommend that our Committee become a Senior Committee,
22 a Standing Committee with all the rights of other Senior
23 Committees.

24 Our work included a review, a very intensive
25 review of the year long process, and it is about a year long

1 from the beginning of the Committee Appointment process
2 to the end, to find out how members are selected.

3 We were happy to report we learned that,
4 despite rumors to the contrary, that most of the Committee
5 members this last year were not related to Bill Kanaga.

6 We were interested in learning who makes the
7 decisions, who provides the input, what the time schedule
8 was for this input coming in, how the data bank worked,
9 because there is a data bank in which names of people who
10 are -- have either indicated on their own or have been
11 recommended by others are considered for membership in
12 Committees, and finally, we were interested in knowing
13 whether the quantity of eligible people for Committee
14 functions is adequate.

15 As you might expect, we first looked at some
16 of our sister professions, and notably the American Bar
17 Association. We asked them how they go about doing these
18 same things, thinking that maybe we would learn something
19 new.

20 We learned, first of all, that by comparison,
21 their methods are rather primitive. I guess it's going to
22 back to about the oldest cronyism that I can imagine.

23 It brings to mind a story told to me by one
24 of my own partners, Norman Auerbach, who was trying to
25 impress the fact that we are somewhat different from other

1 professions.

2 This goes back to the French Revolution.
3 I didn't really know Norman was that old either, but in
4 any event, during the aftermath of the Revolution, there
5 was a long line of people waiting to be stricken down by
6 the guillotine, and among them, of course, were members of
7 the bourgeoisie, all kinds of professional people.

8 The first one in line was a doctor. Put his
9 head on the block, and the knife came hurtling down, and
10 through some miracle it got jammed about six inches above
11 his head, and under the Rules of Fairness, even in those
12 days, he was given no second opportunity to have his head
13 chopped off, he was freed, and of course the family was
14 deliriously happy.

15 The second person was a lawyer, and he put
16 his head upon the block, and of course his family hoped
17 that the header, or whatever his name, would be -- wasn't
18 successful in the adjustments that he had made, but
19 miraculously the same thing happened. Again the blade
20 stuck just above his head, and he too was freed.

21 The third person, an accountant, then put
22 his head on the block, and of course his family was
23 muttering, the fellow had made every kind of adjustment
24 possible, he wanted to be sure this thing didn't happen
25 the third time, and just as the blade was about to be

1 released the accountant looked up and he said, "Wait -- I
2 think I see the problem."

3 Hearing our masochistic tendencies, talking
4 about all the introspection that goes on throughout our
5 accounting profession, including Peer Reviews and the
6 rest, I think we are indeed different, and this story, I
7 believe, illustrates it, and the fact that it got such a
8 good laugh, I think, will prompt me to recommend to the
9 Executive Committee of Coopers and Lybrand, that they take
10 Norm out of his present dead-end position as Board
11 Chairman and give him someplace where he can grow.

12 Our Committee reviewed at some length all
13 of the last year's Committee members to see, first of all,
14 the extent, if any, of multiple committee memberships.
15 We found that, surprisingly to us, frankly, that they were
16 rather rare, that there were a number of instances where
17 people were indeed on two or more Committees, but in almost
18 every case those multiple Committee memberships were a
19 Committee and a Subcommittee, or a Committee and some kind
20 of a task force that related in some way to the same
21 topic, and there are very, very few instances, so it does
22 not appear to us that there is a problem that needs some
23 kind of restrictive legislation or restriction on the
24 part of the appointing bodies.

25 We looked then at the dispersion of Committee

1 members, first of all by state. We took a look at the
2 membership in each state, AICPA membership, and the number
3 of CPA members on Committees of the Institute.

4 We found a remarkable dispersion.

5 Apparently the Institute has, throughout the years, made
6 a conscientious effort. There was no state or territory
7 that was left out. Every place that has a CPA member of
8 the Institute has some members on Committees, and as a
9 matter of fact, some of the smallest territories and states
10 have the disproportionately highest percentage.

11 Overall, something just slightly under one
12 percent of our members are on Committees. The state or
13 territory that has the highest percentage is the Virgin
14 Islands. They've got 26 members of the Institute, three
15 of whom serve on Committees, so they have 11 percent.

16 Oddly enough, you look at the other end of
17 the spectrum, and the state that has the lowest per capita
18 membership on Committees is the most populous state,
19 four-tenths of a percent.

20 However, we looked throughout, found no
21 particular pattern that disturbed us, did not feel that
22 there was an inordinant weighting of, let's say, members
23 from New York or the East Coast, which is sometimes a
24 complaint I hear.

25 I think New York has something like two

1 percent which was a little higher than the overall average,
2 but not disproportionately. Next to the Virgin Islands,
3 I think District of Columbia had the highest proportion
4 of membership, something like five or six percent, and I
5 think that too is understandable because of the fact that
6 so many of our Committee activities directly relate to
7 relationships with the Federal Government, and necessarily
8 include people who are residents in and around the District
9 of Columbia and who practiced there because it does take
10 this day to day, or at least very frequent contact.

11 Now, more importantly, we looked at the
12 dispersion by firm size to see if there is some pattern
13 that seems to need some type of attention by the Institute
14 Management, and specifically by the Chairman. Here we did
15 find substantial dispersion, although it was a little
16 different than many of us expected would be the case.

17 Overall, first of all, looking at the
18 practicing members, members in public practice, about one
19 and a half percent of all CPA's in public practice served
20 on Committees, one and a half percent. Last year that one
21 and a half percent was dispersed among varying sizes of
22 firms, and in a rather interesting fashion.

23 The group of firms that had the highest
24 number of members on Committees was the second tier, firms
25 in size of -- the 30 firms with, let's say, 50 or more

1 members, but excluding the Big Eight. They had just over
2 five percent of their members who were serving on Committees.
3 So remember now, we are looking at one and a half percent
4 overall among all practicing members, a little over five
5 percent came from the 30 firms with 50 or more members, but
6 not the Big Eight.

7 The second group in size of membership on
8 Committees was the group that had 15 to 24 members, and
9 they were just over four percent, a little over four
10 percent for the 15 to 24, and the third group in descending
11 order of participation on Committees was the firms with
12 25 to 49 members, and they had just over three percent,
13 and the fourth group in size, as far as participation on
14 Committees was the Big Eight, and they had just over two
15 percent.

16 So it goes five, four, three, two, for the
17 largest firms clearly, but the largest firms not in order
18 of their size, but somewhat almost in inverse order.

19 Now, as one might expect, the firms with only
20 one member, which would include not only sole practitioner
21 firms but firms that have maybe two or more members but have
22 chosen only to have one of them become Institute members,
23 those firms are the least represented among the practicing
24 units, only one-tenth of one percent of their membership are
25 on Committees.

1 I'm not altogether sure that this is a -- such
2 an adverse statistic that needs vital correction. If it
3 is the result of lack of information on how such people
4 can become members of Committees, that I think needs to
5 be corrected; however, I think in many cases we would find
6 that the kind of time requirement that would be needed on
7 at least many of our Committees would almost automatically
8 preclude a sole practitioner or a person from a small firm
9 from serving.

10 In any event, the spread goes from a little
11 over five percent for the firms with 30 or more -- yes, 30
12 or more, down to one-tenth of one percent for the sole
13 practitioners.

14 The next kind of dispersion we looked at
15 was between practicing members and those in industry and
16 education and government. Now, here we found a very,
17 very disproportionate -- a great disproportion which we
18 believed need some correction.

19 Industry members now constitute a very, very
20 large segment of our membership, and it's the membership
21 segment that is growing the most rapidly. In fact within
22 the next decade, certainly before the '80's are out, the
23 members of industry will have a majority of the membership
24 of the American Institute. They clearly are not represented
25 to any extent like that on our Committees presently.

1 This, I believe, is partly due to the fact
2 that the American Institute simply has not devised a program
3 of sufficient interest for those members to really take an
4 active role in as many of the things that they could. On
5 top of that I believe that in all fairness many of our
6 members could just as well benefit from industrial members,
7 let's say the Tax Committee, certainly there are many,
8 many highly qualified tax men who work for industry who
9 could just as well serve on our Tax Committee just as much
10 as the practicing members, yet their membership on a
11 Committee like that is very, very low, if nonexistent.

12 In the last year, only three-tenths of one
13 percent of the industry members in the Institute served
14 on Institute Committees, so we are going to recommend
15 strongly in our report that the Institute look specifically
16 at devising a program with more general interest to
17 industry members, so that because of the program availability,
18 there will be Committees that will spring naturally from
19 that.

20 As a result of that, we believe that industry
21 members will continue to serve actively, as John Meinert
22 and others have in the past, and give more fully of their
23 services and benefit all of us.

24 The industry people frankly have been kind
25 of a sleeping giant. I had always assumed that perhaps they

1 had a token membership in the American Institute as I might
2 maintain, let's say, in the American Accounting Association.
3 I feel that the work of that Association is valuable, but
4 that I look at it as primarily a group of educators, and
5 I'm indicating some support, but the people on our Committee
6 from industry, they assured me that industry members do
7 not look at the American Institute in the same passive
8 way as I personally happen to look at the American
9 Accounting Association.

10 I'm not in any way demeaning or suggesting
11 that that is the proper way, I was just trying to draw an
12 analogy. It's an analogy which apparently is not applicable,
13 because the members of industry that are members of the
14 American Institute expect that this is a major source of
15 their representation in the profession, and they intend
16 and expect to be active and wish to be active.

17 Now, we looked then at the success rate by
18 class. There is in the hopper, in the data bank that I
19 spoke of, a certain number of names available for membership
20 on Committees, and we took a look at how that group by class,
21 by size of firm and by industry versus firm and educators
22 and so forth, to determine whether there was a higher or a
23 lower degree of success between those who were put forth as
24 potential members from one sized firm or one group versus
25 another.

1 We found no substantial differentiation.
2 About 40 percent of the people that were available in that
3 data bank or any sized firm or for industry seemed to
4 succeed in finally being appointed to a Committee.

5 Finally, we looked at, and have not yet
6 gotten data on how many new faces show up each year on the
7 Committee. It seems to us that it's an extremely important
8 thing to know that there is some new blood, and by new
9 blood, I mean people who have never served on an Institute
10 Committee before, being infused each year so that we have
11 a continuum and we know that ten years down the road, when
12 the present gray heads aren't there, there is a mixed
13 volume in your middle management, if you want to call it
14 that.

15 We don't have the data on that, that's one of
16 the last things we asked for. The computer people at the
17 Institute are gathering the data for the last three or four
18 years for us, and we intend to include some data, some
19 statistics in our final report.

20 We next were concerned about the fact that
21 obviously the intent of our Committee coming into being at
22 all had to do with whether enough people were serving, and
23 whether there was a way to get more people to serve.

24 Now, just to give you some overview, about
25 1,660 members, roughly, served in the last year as members of

1 Committees. That does not include task forces, but it
2 does include subcommittees and full committees. Some of
3 those Committees are probably not even listed in your
4 Committee handbook that is sent out because they're short
5 term Committees, like the one I'm heading this year, probably
6 that doesn't show up in the Committee handbook, but they're
7 just ad hoc committees.

8 Anyway, the total Committee men and women
9 serving last year, 1,665, or just about one percent of the
10 total membership of the Institute, only about a third of
11 those would turn over every year, and the normal course
12 of events, because we normally have a three year rotation
13 policy unless some person either resigns early or just is
14 inactive and is taken off the Committee sooner, and so
15 the Committee appointment process really looks at something
16 around 500 or 550 people each year that are eligible, and
17 many of those are virtually automatic, because they include
18 people who have been on the last year or two and should be
19 perhaps renewed for another year.

20 Now, there are three or four ways in which we
21 could increase that if indeed it is a desire, to increase
22 the participation of members in the American Institute
23 activities.

24 First of all, we could just increase the
25 number of Committees and Jack Seidman is somebody you may

1 recall that did exactly that when he was president. He
2 felt that there was a need for greater involvement, and
3 he had a very, very large number of Committees, but the
4 attrition in those additional Committees, which was
5 somewhat artificially produced, seems to have brought it
6 back to about the level of what it was before, indicating
7 that somehow the number of Committees reaches the proper
8 level almost by osmosis, I suppose, or something rather
9 automatic.

10 If a Committee doesn't have a vital function
11 and there's not a need for its activity, it's not going to
12 continue, it's not going to succeed in capturing the
13 attention of its members. Consequently, it does not seem
14 to us at least to be a need for artificially adding a large
15 number of new Committees; however, this is not to say that
16 there have not been new Committees.

17 We looked at new Committee appointments and
18 terminations, and over the last four years there have been
19 an average of 11 new Committees or Subcommittees appointed
20 in each year, so there has been in response to a perceived
21 need by the Board or by the membership appointments of
22 Committees such as ours and others to take on either special
23 projects, or in some cases, become standing committees.

24 So I think our general view has been that
25 the Institute has been responsive, but has not artificially

1 increased Committees just to provide more spots for more
2 members.

3 Another way to get more members active is
4 to enlarge the present Committees. Our Committee generally
5 does not view this as being productive, as a matter of fact
6 we think it's counterproductive. It seems to us that the
7 output of a Committee tends to vary inversely with the
8 size of the Committee, at least that's been true of
9 Committees that I have served on. We do not feel that it
10 would be productive to merely add more members to the
11 Committees, just to make more spots available.

12 Next, we looked at the possibility of reducing
13 this three year cycle on which most Committees operate.
14 Now, I think we would agree that there has perhaps been
15 some amount of dead wood that has not been pared away,
16 people who have not served adequately on Committees, either
17 have not shown up or not participated when they did show
18 up, and so we have applauded the efforts of both Chairman
19 Kanaga and the avowed efforts of our incoming Chairman to
20 see to it that those people who have not attended properly,
21 and in fact Chairman Kanaga has instructed the Staff to
22 maintain attendance records this year, so that the people
23 in the position next year of appointing new members will
24 know whether a Committee man has been attending or not to
25 his Committee functions.

1 This, we believe, is a very desirable
2 thing, was not an idea our Committee thought of, it was
3 one that was already adopted prior to our Committee's
4 appointment.

5 The last method that was suggested to us,
6 and it came up at our Regional Council Meeting in Denver,
7 was one that we think has a lot of merit.

8 One of the Council members from Utah, Bob
9 Hazen, suggested that Advisory Committees or Advisory
10 Groups might be appointed to at least some, if not all
11 Committees. These people would be on the mailing list,
12 receive all of the materials that are sent out to
13 Committees, be invited to participate by mail, and if they
14 wished at their own expense to attend meetings, if they
15 happen to be in their own vicinity, in this way he felt
16 that we -- and we tend to agree, we might first of all
17 provide a pool of knowledgeable potential Committee men
18 to serve when there were openings on the Committee proper.
19 It might also provide a spot for people like, let's say,
20 sole practitioners who find that the travel requirements
21 and the time requirements for full Committee membership
22 are just too great, but would be interested in participating
23 to a lesser extent by one of these Advisory Committee
24 spots.

25 So we are suggesting in our report that on a

1 pilot basis the Institute try this method for perhaps two
2 or three or four Committees, and see how it works. We
3 think that it's got enough merit to at least try it, and
4 we would not think that it made sense to do it across the
5 board until we see how it works. We do not feel that
6 membership in one of the Advisory Groups should be --
7 shouldn't be a required prerequisite before you can become
8 a member of the Committee. I don't think that every
9 member needs necessarily to go through that gestation
10 period, but certainly some members may find that that is
11 the normal rotation, and others may come in from outside
12 that have not served previously.

13 We reviewed not only the new Committee
14 formation, but also the terminations that I mentioned a
15 moment ago, and not only were there an average of about
16 11 new Committees appointed, but there were also about
17 seven or eight terminated on an average covering the last
18 three or four years, so there seems to us to be an adequate
19 responsiveness to need to not only appoint new Committees
20 as they're needed, but to eliminate old ones when they're
21 no longer needed.

22 The Institute has not started these new
23 Committees, by the way, just out of the blue, there's always
24 been some study, some intensive review of the problem, and
25 they have used a method which was adopted and perfected

1 somewhat at the Menninger Clinic for a group of psychologists
2 there determine that there is a direct correlation between
3 sleeplessness and the things that worry people, and so the
4 Institute has on several occasions, including the formation
5 of my Committee, for example, polled a sampling of our
6 members to determine what is causing their insomnia, and
7 formed a kind of an insomnia index, and they determined,
8 for example, among the group that was polled for our
9 Committee, that about two percent of them got up in the
10 middle of the night to go to the bathroom, that wasn't too
11 helpful of a statistic, but about three percent of them
12 were indeed concerned about the Committee Appointment
13 process, about one and a half times as many as the other,
14 and the other 95 percent got up to go home.

15 You'll be happy to know then that the
16 Institute uses the best scientific methods available to
17 decide on anything that has to do with something that is
18 as important as a Committee.

19 We looked at the expense reimbursement
20 methods. We generally concur with the proposal that the
21 Institute is going to -- that the Council will vote on
22 today. I don't think I need to say anything more about
23 it.

24 In addition to the recommendations that I
25 have already talked about, I'd like to give four or five

1 other very brief ones.

2 First of all, we gathered a lot of statistics
3 which were previously not readily available. We believe
4 many of these statistics should be made available on a
5 regular, recurring basis to the Board Chairman and to the
6 Board.

7 For example, if it is the decision that you
8 ought to have five percent or eight percent of new faces
9 every year, it would be helpful to know that in advance
10 so that in the appointment process you can make certain
11 that you are indeed finding at least five percent or ten
12 percent new faces to fill the spots on the Committees.

13 Secondly, we think that the annual process
14 ought to start a month or two earlier so it could correlate
15 a little bit better with the State Society calendars. Up
16 until recently the Institute requested nominees from the
17 State Societies starting at about the end of December or
18 January. This came at a very bad time for most State
19 Societies, and they were not as responsive as they could
20 have been if you would go to them in November, so they have
21 already adopted this as a policy at the State level, and
22 will next year begin to process a little bit earlier.

23 Secondly, we believe that we should invite
24 applications, and in fact there was an invitation published
25 in the CPA in December, the December issue, and that, by the

1 way, you might be interested, flushed out 600 responses.
2 600 members responded to that advertisement or that notice
3 in the CPA indicating that if you are interested in Committee
4 work, we are now beginning the process for the annual
5 evaluation. Those 600 people, if they have responded
6 properly and sent in their biographical sketches, have
7 been added to the data bank and will be considered among
8 the group that we'll be talking about when George Anderson
9 starts to review the Committee Appointment process in
10 March, or I mean in May or June.

11 Greater involvement of Committee Chairmen,
12 we believe, is needed.

13 The Committee Chairmen in the past have been
14 asked kind of casually to look at the recommendations of
15 the Staff and to recommend whether members either ought to
16 be continued or dismissed from the Committee, but they
17 haven't really been asked for as much affirmative involvement
18 as we believe they should have, and we are suggesting in
19 our report that they be asked to truly become involved more,
20 not only at the end of the year, but even in monitoring
21 during the year, the involvement of the people on the
22 Committee so that perhaps people might even be replaced in
23 mid-year if it appears that they are not participating
24 properly.

25 We were asked in part of our charge to describe

1 in an appendix to our report the whole process by which
2 Committees are appointed so that members will understand it.
3 That process will be described, and we hope that it will
4 then be feasible for publication, if not for framing, and
5 that that publication will indeed be put forth in some kind
6 of a general mailing, first of all, and then followed up
7 by periodic mailings, certainly to all new members, and
8 perhaps every three or four years sent out to all members
9 to remind them that there is indeed opportunity for anyone
10 who wishes to serve if he wishes to take the time just to
11 respond.

12 Somebody said once that Committees are made
13 up of the unfit, chosen from the unwilling, to do the
14 unnecessary.

15 I think I can summarize our Committee's
16 work by saying that we do not feel at all that the unfit
17 have been the ones chosen for our Committees. Quite to
18 the contrary, our Committees have been peopled by exceptional
19 individuals who have given generously of their time and
20 have done a bang up job.

21 I don't believe they have been unwilling,
22 judging by the number of -- small number of declinations
23 and the small number of turnovers, because of the fact
24 that people just haven't been active.

25 Finally, I don't think that their work is at

1 all unnecessary. I believe to the contrary that most of
2 the vital functions of the Institute are at least directed,
3 and in many cases actually performed by the Committees that
4 are functioning under either standing or ad hoc position
5 in the Institute.

6 I guess the ultimate question that our
7 Committee really has to resolve is just how effective are
8 AICPA Committees, and to measure that is a difficult and
9 subjective thing.

10 We used another scientific method developed
11 by Bob Burns, who many of you will recall was called
12 "The Arkansas Traveler".

13 Bob Burns, when he was faced with a problem
14 of having to estimate the weight of a large hog, put a
15 very, very large plank on a sawhorse. He placed the hog
16 at one end, he placed large rocks on the other, and as
17 soon as they were in balance, he carefully estimated the
18 weight of the rocks.

19 Thank you.

20 (Applause.)

21 CHAIRMAN KANAGA: I'm sure it's very
22 comforting to all of you to know that this task, this
23 important task was in the hands of such an articulate
24 speaker.

25 The next item that we have is the adoption of

1 revised Council Policy on Reimbursement of Committee
2 Members' Expenses.

3 During the Public Hearings and through the
4 mail, the Derieux Committee was told that the existing
5 Council Policy on reimbursement of out-of-pocket expenses
6 should be revised to eliminate what some characterized
7 as a "poverty oath."

8 Present policy indicates that any member
9 who has a financial need to do so can submit for reimbursement
10 of his travel expenses in connection with attendance at
11 AICPA Committee Meetings.

12 In adopting that policy, I'm quite sure that
13 the Council did not intend to impose a "poverty oath" nor
14 in any way to demean those who chose to submit for
15 reimbursement. As a matter of fact, policy is quite
16 clear, that requests for reimbursement will automatically
17 be considered as coming from those who qualify for
18 reimbursement. Accordingly, there's not been any challenge
19 over the years as to whether a member qualifies under the
20 policy, and in addition the names of the members remained
21 anonymous.

22 Nevertheless, if a number of members perceived
23 that the present policy discourages Committee service itself,
24 or discourages some who do serve on Committees from
25 submitting for reimbursement available to them, the Board of

1 Directors felt that consideration should be given to
2 establishing a different test for eligibility.

3 It became clear early in our deliberations
4 that we could not simply throw the matter open, wide open
5 to any member, because without some meaningful, measurable
6 standard, those members who choose or chose not to submit
7 for reimbursement would be deprived of a deduction for an
8 ordinary and necessary business expense on the basis that
9 they were otherwise eligible to be reimbursed for their
10 expenses by the Institute.

11 After due consideration, therefore, it was
12 determined that an appropriate standard would be, and I
13 use a quote, "A significant disruption to the professional
14 practice, business or other activities," in which a
15 Committee member's involved.

16 All of us, regardless of the size of the
17 firm in which we practice or the endeavors which we are
18 engaged in, experience disruptions to our normal business
19 endeavors because of Committee service. Although the
20 Institute is not in a position to either compensate us for
21 our time or in some manner restore our time to us, it can
22 make the burden of Committee service somewhat lighter by
23 providing for reimbursement for travel and out-of-pocket
24 expenses for those whose normal activities are disrupted
25 by Committee service.

1 A draft of the proposed new reimbursement
2 policy is in your kits and has been approved by the Board
3 of Directors, and the Board offers it to you for discussion
4 and adoption.

5 It's been reviewed by outside legal counsel,
6 Wilkie, Farr and Gallagher, who have advised us that it
7 provides an appropriate basis by which the members choosing
8 not to submit for reimbursement can qualify for appropriate
9 tax deductions.

10 There are two other elements in the proposal
11 which are not found in our present policy.

12 The proposed policy would provide for the
13 Board of Directors to establish a per-diem amount from
14 time to time, and reimbursement would be for all actual
15 costs up to that amount.

16 At the present time there is no limitation
17 on the amount that a member can claim for actual costs,
18 and the Planning and Finance Committee felt that it was
19 only prudent to have the Board establish a reasonable
20 ceiling.

21 It is expected that the amount which will be
22 established will adequately handle costs in the major
23 metropolitan areas where most of our Institute Meetings are
24 held.

25 A second modification from the existing policy

1 is that reimbursement for air travel will, in the future,
2 be limited to Coach fare only. This obviously would not
3 preclude a member from flying First Class if he chooses
4 to do so, but the difference between First and Coach would
5 not be subject to reimbursement.

6 The Planning and Finance Committee introduced
7 this element into the policy for the same reason, business
8 prudence, that it has recommended the per-diem limitation.

9 It is the Board's feeling that the proposed
10 new policy responds to the recommendations of the Derieux
11 Committee and provides an appropriate basis for us to provide
12 on-going reimbursement to qualifying members in connection
13 with Committee activity.

14 May I have a motion that Council adopt the
15 proposed revision of reimbursement of out-of-pocket
16 expenses which is contained in your kit?

17 A MEMBER: So moved.

18 A MEMBER: Second.

19 CHAIRMAN KANAGA: Is there discussion? Yeah,
20 Joe.

21 MR. CUMMINGS: I'd like to -- do I have to
22 go to a mike? Can you hear me? Joe Cummings, Connecticut,
23 retired.

24 I find it very difficult to qualify, because
25 I can't conceive of creating any significant disruption in

1 any activity in which I am involved by going to a meeting.
2 Does that mean someone in my position is disqualified?

3 CHAIRMAN KANAGA: Joe, it is my understanding
4 that if you submit for reimbursement, the reimbursement is
5 automatic with the limitations that you have.

6 MR. CUMMINGS: But I wouldn't submit unless
7 I qualified, you know me better than that.

8 CHAIRMAN KANAGA: Would you say that again,
9 Joe? I didn't get it.

10 The Staff would be -- the Financial Staff
11 will be advised that they are to accept and reimburse those
12 expenses, I guess, maybe with just the two qualifications,
13 one, the limitation here, and the second, the assurance that
14 the individual was in fact at a Committee Meeting based
15 on attendance sheets.

16 Is there any other discussion?

17 Then let's put it to a vote. All those in
18 favor. Opposed? What was that, Joe?

19 MR. CUMMINGS: Could we have a head count?

20 A MEMBER: How many heads do you have?

21 CHAIRMAN KANAGA: Next item that we have is
22 a progress report on the Special Committee on Solicitation.

23 Those of you who attended the Annual Meeting
24 of the Institute in Boston last October will recall the
25 Resolution submitted by a member from Philadelphia calling

1 on me as Chairman to appoint a Special Committee to study
2 the status of the rule against solicitation in various
3 states, and to report to the membership at least one month
4 prior to the Annual Meeting in 1981.

5 I appointed that Committee shortly after the
6 Annual Meeting, and we were fortunate that Bill Gregory
7 consented to serve as its Chairman. Bill jumped to the
8 task organizing the Committee and its activities, cognizant
9 of the short time which the Committee had to complete its
10 task. As you know, Bill was not able to complete this
11 mission.

12 During Bill's illness, and at his and my
13 request, Alan Brout consented to Chair the Committee's
14 Meetings in Bill's absence, and after Bill's death, I
15 asked Alan to take over the Chairmanship of this very
16 important Committee.

17 I am sure you all appreciate the sensitivity
18 of the subject which the Committee is studying, and in
19 order to assure that it can conduct its deliberations
20 and reach its conclusions without outside pressure, the
21 Committee has agreed that its work should be kept
22 confidential until its report has been issued.

23 I have prevailed upon Alan to tell us today
24 as much as he feels is appropriate about the work of the
25 Committee and the various options open to it.

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Alan.

A L A N B R O U T

MR. BROUT: I did away with the first seven pages of my speech in deference to those who have early tee-off times. I'm not going to tell any guillotine stories, but I feel this Committee certainly has been on the cutting edge of a very serious controversy.

I think it might be useful to read the Resolution that Sam Fisher proposed and which was passed with nary a voice raised in dissent in the October Meeting.

WHEREAS: Direct uninvited solicitation by Certified Public Accountants is detrimental to the public interests and to the professional practice of accountancy as it tends to diminish the technical and ethical standards of the public accounting profession, and

WHEREAS: Various State Boards of Accountancy and various State Societies maintain prohibitions on direct uninvited solicitation, and

WHEREAS: Certain State Boards of Accountancy have instituted proceedings

1 against accounting practitioners who have
2 violated these rules,

3 NOW THEREFORE BE IT RESOLVED: That
4 the Chairman of the American Institute of
5 CPA's shall appoint a special committee to
6 study the ramifications of the present status
7 of rules pertaining to direct uninvited
8 solicitation and the legality of such rules.
9 The special committee shall consist of
10 members from all segments of the membership
11 in public practice. The Committee shall be
12 empowered to request legal counsel of its
13 own choosing, shall be empowered to communicate
14 with State Boards and State Societies, and
15 shall report its findings in a written report
16 to the members at least one month prior to
17 the Annual Meeting in 1981.

18 Mr. Chairman, we hope to meet that charge under
19 the time table proposed by the Resolution.

20 The Committee consists of members from various
21 segments of the Society, small, medium and large firms, as
22 well as representatives of industry, and even threw in an
23 Executive Director of a State Society, for good measure.

24 Attending this Meeting are Committee members
25 Norm Auerbach from New York, Lou Dooner from Tallahassee,

1 Clay Ostlund from Chicago, and Gordon Sheer who's the
2 Executive Director of the Colorado Society.

3 Not present are Chuck Micktan of Kansas
4 City, Clint Romeck from New Orleans, Mylan Ruben from St.
5 Louis, and Jay Ward from Dallas, our Industry Representatives.

6 We have already held four meetings with the
7 full Committee and two Subcommittee Meetings with another
8 meeting scheduled early next month.

9 Attendance has been almost perfect, and all
10 members have been conscientious in carrying out the charge.

11 The Committee, it goes without saying, was
12 severely affected by the untimely death of Bill. His
13 leadership and inspiration have been missed, and we are
14 all the poorer without him.

15 We have in our work been supported, and not
16 guided, hindered or obstructed in any way by high level
17 staff support from the Institute. Don Schneeman, Bill
18 Brusshy and Bill Jennings have been more than helpful and
19 have attended most of the Meetings at our invitation, and
20 we are grateful for their cooperation.

21 Our methodology in the Committee involves
22 proceeding in three principal areas.

23 First, we decided to survey the 54 State
24 Boards of Accountancy and State Societies to determine the
25 status of their rules and regulations as well as to

1 determine what violations or complaints they were aware of.

2 We received exemplary cooperation and a very
3 high response, undoubtedly reflecting the unprecedented
4 interest in the topic.

5 Of the State Societies responding, four
6 indicated that they have a ban on direct uninvited
7 soliciation, and three of them are enforcing it. The
8 State Boards of Accountancy of 12 states have the NASBA
9 Rule including Paragraph C which prohibits direct personal
10 communication to solicit unless the communication is
11 invited or one is seeking services, and no one has yet
12 been engaged to perform them.

13 It should be pointed out that in those 12
14 states, the Rules seem to be crumbling, and a number of
15 State Attorney Generals are recommending that it be dropped.

16 The second path we traveled was an attempt
17 to determine the attitudes and opinions of the membership
18 of the AICPA. To accomplish this objective we obtained
19 the services of Doctor Gary Siegal who's a CPA, a statistician,
20 mathematician and behavioral psychologist whose knowledge
21 in these fields undoubtedly qualifies him certainly as a
22 specialist, but probably not as an expert in the area that
23 we now have learned is called psychometrics, the scientific
24 measurement of attitudes.

25 He has done survey work for the Illinois

1 Society and the Indiana Association of CPA's.

2 It was decided that we should survey a
3 sample of the membership, and on January 30th, 2519
4 questionnaires consisting of three pages were mailed to a
5 representative sample of the membership as a whole. 54
6 percent of those went to practitioners in public practice,
7 39 percent to the members in industry, and 7 percent to
8 those in Government, education and other, whatever other
9 happens to be.

10 The Committee attempted to sanitize the
11 questions so as to wring out every last drop of bias, and
12 we have been assured that the results are clearly indicative
13 of membership attitudes as of the winter of 1981.

14 Responses were tabulated from 674 members,
15 and we were comforted by Doctor Siegal that the number is
16 certainly large enough to support a high confidence level.

17 The survey was designed not necessarily to
18 measure members for or against, but the intensity of the
19 attitudes of membership.

20 Not surprisingly, there was a high rate of
21 responses received from those in public practice and from
22 those in industry, here again reflecting the practitioner's
23 keener interest in the topic.

24 Each questionnaire, while anonymous, asked
25 the respondent in the public practice to indicate his

1 working environment and years in practice so that the results
2 of the survey could be stratified.

3 The answers were analyzed by size of firm,
4 single practitioner, small, medium, large, and whether
5 the respondent was a partner or a staff man.

6 The first group of ten questions dealt with
7 definitional matters as to whether in the opinion of the
8 respondent an action would be characterized as direct
9 uninvited solicitation or not.

10 For example, the first question in the
11 questionnaire stated, a CPA was seated next to the President
12 of a corporation on a flight. During the conversation the
13 CPA explained the nature of his work and his ability to
14 service such organizations. He gave the President his
15 card.

16 You were asked to indicate on a scale of
17 zero to 100, ranging from no solicitation to direct
18 uninvited solicitation, to what extent the example was a
19 case of solicitation.

20 The answers indicate a little difficulty in
21 determining that this was not a solicitation with an average
22 mean score of 29.7 percent, and the mode was zero, with
23 zero, 25 so saying, 82 percent rated it 20 or less on a
24 scale of zero to 100.

25 On the other hand, the questionnaire stated,

1 in an effort to obtain more financial institutions as
2 clients, a CPA mailed a letter to the top officers in all
3 the banks and savings and loan associations in his area.
4 The letter was addressed to the officer by name and title
5 and requested the opportunity to meet with him.

6 Here again there was little difficulty in
7 determining that this was a direct uninvited solicitation
8 with a mean score of 90.7 percent.

9 With respect to the most significant part
10 of the survey, 69 percent of the members, asked to assume
11 that there was no legal or ethical ban on direct uninvited
12 solicitation, felt that direct uninvited solicitation is
13 not professional. 61 percent felt that it harms the CPA's
14 image, and 55 percent felt that it should be banned by
15 the AICPA.

16 Interestingly enough, only 36 percent
17 believed that it impairs the independence of the CPA who
18 acquires clients by this method, and 33 percent felt that
19 it lowers the quality of services that a CPA renders.

20 The survey was classified by Zip Codes,
21 and it's interesting that there were no significant
22 geographical or regional differences.

23 Not entirely surprising to us was the fact
24 that age and position in the firm led to significant
25 differences in attitudes.

1 Evidently the higher the income and the
2 hairline, the greater the opposition to direct uninvited
3 solicitation.

4 Those members in public practice one to five
5 years felt less strongly about the practice than their older
6 colleagues.

7 Nevertheless, all strata of the profession
8 opposed direct uninvited solicitation.

9 However, the third method, the third road we
10 traveled was the opinion of counsel, which we felt was
11 critical to the Committee's deliberations.

12 Even though we had the opinion of outside
13 counsel which considered the question October 1978, the
14 Committee at its first meeting determined that it was
15 essential to obtain special counsel. We wanted counsel
16 who was an acknowledged authority in antitrust law. We
17 felt he should have some knowledge in the field and feel
18 for the problems of the public accounting profession and
19 for professional associations in general.

20 We threw in an additional requirement. We
21 wanted a firm that was not currently serving as lead
22 counsel to a major accounting firm.

23 After investigation a subcommittee determined
24 that the firm of Kay, Scholer, Fireman, Hays and Handler
25 in New York met our criteria admirably, and so we secured the

1 services of that firm, and Stanley D. Robinson whose
2 credentials were impeccable.

3 We asked Stanley to consider the following
4 questions: Can a broad rule banning solicitation be
5 reinstated in the AICPA Code of Professional Ethics, and if
6 so, what is the strongest broad rule banning solicitation
7 that could be established by the AICOA?

8 If such a broad rule can not be promulgated,
9 what rule, if any, can be established by the AICPA? Can a
10 rule be established, for example, banning direct uninvited
11 solicitation with regard to in-person solicitation, that
12 is eyeball to eyeball contact for a potential audit client
13 based on the impairment of independence, or some combination
14 of those.

15 The third question was, if none of these can
16 be acted upon, can the AICPA issue a policy statement
17 condemning direct uninvited solicitation? The policy
18 statement would be prophylactic and unenforceable, but
19 nevertheless, a clear understanding where we as a profession
20 are going.

21 While we have not yet obtained the final
22 opinion of counsel, at our last Meeting we received a 46
23 page discussion outline of their opinion. This outline
24 goes into the background of present Rule 502, the case law
25 preceding the January 30th, 1979 referendum and subsequent

1 decisions.

2 Without attempting to discuss the complex
3 analysis and legal issues involved, I can give you the
4 tentative conclusion.

5 Regretfully, we can not reimpose the prior
6 rule banning direct uninvited solicitation, both written
7 and oral. That is turning the clock back to the good old
8 days. This would incur a substantial antitrust risk, no
9 matter what administration happened to be in Washington
10 at the time.

11 Two. We can not impose a ban on oral direct
12 uninvited solicitation without incurring a substantial
13 antitrust risk.

14 Three. Unless we are able to come up with
15 hard, imperical evidence that direct uninvited solicitation
16 is likely to impair the independence of the CPA or perceived
17 as so doing by users of financial statements, the AICPA
18 ban on direct uninvited solicitation of audit and review
19 engagements where independence would be important would also
20 run an antitrust risk which we feel should not be borne.

21 In view of the fact that 64 percent of our
22 membership believes that independence would not be impaired
23 because their client was obtained as a result of direct
24 uninvited solicitation, it's going to be very hard to
25 convince a judge of reasonable intelligence that this just

1 wasn't so.

2 So where does that leave us? Well, for one
3 thing, we can have an expansion of Rule 502 picking up the
4 NASBA language and prohibiting solicitation that involves
5 coercion or duress, or which is intimidating, vexatious or
6 harassing.

7 We can, because of the tendency to confuse
8 advertising and solicitation, pull out false and misleading
9 solicitation and put it in a separate rule. We can consider
10 policing written solicitations by requiring the solicitor
11 to file a copy of his solicitation letter or materials with
12 the AICPA or some other body for subsequent review, and
13 indeed, our brothers in the legal profession in New York
14 State have considered the question, and this is a proposal
15 which is being studied by a Committee of the New York State
16 Bar Association with respect to direct mail advertising
17 materials.

18 The theory is that if you advertise to the
19 public you can police false and misleading statements
20 easily, but if you have a direct mail advertising, it's
21 not the same immediate scrutiny that the public advertisement
22 would be, and so their proposal is that these be filed with
23 the State Local Bar authorities and reviewed by them for
24 false and misleading statements.

25 We can also, without a substantial antitrust

1 risk being run ask the AICPA to issue a nonenforceable but
2 clear policy statement on the dangers that we as a profession
3 face or the individual faces engaging in direct uninvited
4 solicitation, how it tarnishes the profession, and how this
5 might lead to a temptation to become close to false or
6 misleading.

7 We could also legally lobby state legislatures
8 under an exemption from the antitrust laws to have them
9 directly engage, directly enact a ban on oral direct
10 uninvited solicitation. A ban on written uninvited
11 solicitation on the state level would probably help violate
12 the First Amendment of the Constitution of the United
13 States, and probably would not pass Constitutional muster,
14 but the ban on oral solicitation, if in fact directed by
15 a state legislature and not through a rule of a State
16 Accountancy Board would -- has a good chance of getting
17 through.

18 This Committee had grave doubts, however, as
19 to whether this is an acceptable course for the AICPA to
20 travel, and now we need your help.

21 The Committee has received a number of
22 examples of written uninvited solicitations, as a matter of
23 fact we have received some pretty darn good ones, but we
24 have few, if any, examples of a false or misleading one, so
25 if any have come into your possession by one means or another,

1 please delete what you want and send them along.

2 This is supposed to be a progress report, so
3 I will not go into our tentative conclusions, but it is
4 the unanimous feeling of the Committee, some regretfully,
5 that they are tired of higher institute costs, that we
6 should not further deplete the Treasury of the AICPA just
7 for the sake of enriching law firms with litigation on the
8 matter and incurring a substantial antitrust risk of
9 reinstating the old ban.

10 Nevertheless, the feeling of the Committee is
11 that to the limit the law allows, we should have a policy
12 that will reflect the distaste of the profession for the
13 rising tide of commercialism, to use Bill Gregory's phrase.

14 Now, I will attempt to duck any questions
15 that you may have.

16 By the way, we do intend to make the full
17 legal opinion available to the membership on request, and
18 when we issue our report there will be a summary of the
19 opinion, but the whole thing is going to be so weighty, I
20 think it will be available to those members who ask for it.

21 CHAIRMAN KANAGA: Any questions?

22 (Applause.)

23 CHAIRMAN KANAGA: That is very impressive,
24 Alan, that you have covered the subject so thoroughly, if not
25 happily.

1 Thank you again, and we wish you well on the
2 remaining part of your voyage on that Committee.

3 One of the more popular and helpful items
4 on our Agenda at this Meeting is the Open Forum which gives
5 members of Council the opportunity to raise and discuss
6 non-agenda items.

7 We have one item which has been previously
8 submitted to us by the Missouri Society of CPA's, and I
9 will invite John Huelster to approach one of the microphones
10 to give us his report.

11 MR. HUELSTER: Thank you, Bill.

12 Most of you, all of you should have received
13 a letter from me dated April 28th concerning the proposition
14 of relocating the CPE Division of the AICPA to the mid-west.
15 I won't repeat what is in my letter.

16 I would like to put before this Meeting a
17 resolution as follows:

18 WHEREAS: The Board of Directors
19 of the Missouri Society of CPA's, at its
20 meeting on February 23, 1981, resolved that
21 a spokesman for the delegation of AICPA
22 Council members from Missouri attending
23 the Regional Meeting of Council in Chicago
24 on March 31, 1981, present a resolution
25 regarding the location of the AICPA CPE

1 Division, and,

2 WHEREAS: This was done and the
3 spokesman was encouraged by AICPA
4 Management to present such a resolution
5 at the AICPA Spring Council Meeting in
6 Phoenix in May, 1981,

7 IT IS HEREBY RESOLVED: That
8 those present at this meeting request
9 the Chairman of the American Institute
10 of CPA's appoint an ad hoc committee
11 to undertake an indepth study to
12 determine whether or not competitive
13 and service features of the AICPA/State
14 Societies CPE Program would be enhanced
15 by moving the AICPA CPE Division to a
16 mid-west location.

17 CHAIRMAN KANAGA: I have asked John -- I have
18 asked Austin Robertson, who has been the Chairman of the
19 CPE Executive Committee to come and give the thoughts of that
20 Executive Committee on your proposal. Austin has taken
21 this responsibility so seriously that he has arrived without
22 his tennis racquet, and I always thought it was part of
23 Austin.

24 Austin, would you come here, give us some of
25 your thoughts?

1 MR. ROBERTSON: The CPE Executive Committee
2 has made many studies of its operations over the years,
3 and we would endorse this study of the possibility of
4 relocating the offices of the CPE Division. We would
5 suggest that it be done through the Planning and Finance
6 Committee.

7 To give you some idea of the scope of the
8 CPE Operation of the Institute, we are dealing with an
9 11 million 700 thousand dollar budget for this year.

10 The objective of the CPE Division is to
11 deliver quality education at a competitive price, so this
12 study will fit in with our long-range objective.

13 The principal source of our marketing
14 operation is through the State Society. They're our
15 exclusive distributors of CPE with the exception of direct
16 mail solicitation by the Institute.

17 There are principally two types of CPE
18 that we provide. That is our Group Study, which is the
19 old standby of the Institute to the Seminars, and the
20 Conferences, these are mostly our one day and two day
21 seminars. The other items that is beginning to play a
22 bigger role in continuing education is the in-house portion
23 of the CPE Program.

24 This is done through the self-study by
25 large providers.

1 The video, as I said, we have an extensive
2 budget for that, and also we are beginning to get into formal
3 self-assessment programs.

4 The purposes of the in-house program is to
5 help to eliminate heavy travel and lodging costs that
6 principally the local practitioner incurs. This in-house
7 program will also help to defer any instructor costs and
8 reduce the non-billable time of the Staff participating
9 in the CPE.

10 In the past we have investigated various
11 alternatives, such as completely spinning the Division
12 off into a completely separate foundation apart from the
13 Institute.

14 We have looked at the other extreme, and
15 that is further integration within the Institute.

16 Presently we do not have the publications
17 division of the Institute under the CPE Division. This
18 would put us in the same posture as your large commercial
19 publishing houses.

20 Some of the support functions that the CPE
21 looks to the Institute for, which are not within the CPE
22 Division itself are, one, the TV Studio that has now become
23 a large part of our program, our audio department is not
24 a part of the CPE Department, printing, packaging,
25 receiving, shipping, collating, accounting, none of these

1 are currently a part of the CPE Division.

2 We have worked through the State
3 Societies to solve several of our operating problems. Most
4 recently we have had a problem of underutilization of
5 manuals, past due accounts receivable, various other
6 operating problems that all of us incur in our everyday
7 businesses.

8 We also had been faced with the pricing
9 competition from outside purveyors of the CPE; however,
10 we have looked, we have had a committee that has studied
11 CPE in the '80's.

12 One of our recommendations coming from this
13 committee was the video. We have had a task force on doing
14 business differently which emphasized the quality and
15 cost savings reduction devices.

16 In conclusion, I would like to say that we
17 endorse this study through the Planning and Finance
18 Committee.

19 Thank you.

20 CHAIRMAN KANAGA: Thank you very much, Austin.
21 I believe, John, you made that in a form of a motion, did
22 you not?

23 MR. HUELSTER: Yes, sir, I did.

24 CHAIRMAN KANAGA: And you had a second back
25 there?

1 A MEMBER: Second.

2 CHAIRMAN KANAGA: Okay. Mr. Dresselhaus.

3 MR. DRESSELHAUS: Dresselhaus, Nebraska.

4 I guess I wonder why don't we perhaps enlarge
5 the study a little bit to the entire office of the American
6 Institute?

7 CHAIRMAN KANAGA: Any other comment, Terry?
8 You want to -- Mr. Lee who is Chairman of the Planning
9 and Finance Committee who is also not from New York.

10 MR. LEE: Correct. I'd like to make one
11 observation, if I can, Mr. Chairman and --

12 CHAIRMAN KANAGA: And that's that the
13 microphone was too high.

14 MR. LEE: After I get this lowered. Yeah.
15 And that is that in the report of the Derieux Committee,
16 there is a reference to -- well, it's not specifically
17 related to CPE, it's related to the establishment of
18 distribution centers across the country to disseminate
19 the materials of the Institute to the membership and so on,
20 and the Derieux Committee, having had that recommendation
21 from any number of practitioners, took it quite seriously,
22 but we felt that it was not a function of that particular
23 committee to either evaluate or deal with, and we instead
24 said that we believed that the manner and placing of
25 shipments and so on should be considered by the AICPA

1 Management rather than by that Committee particularly.

2 The Chairman did ask at a meeting of Planning
3 and Finance earlier or late last week that Planning and
4 Finance take this assignment on, and we'd be pleased to do
5 so.

6 As Austin has already pointed out, there
7 have been in the past other studies of this particular
8 subject matter, but the Planning and Finance Committee
9 believes our study is timely, and we are prepared to
10 undertake one.

11 The most recent study, as best I know it, was
12 reported by the CPE Executive Committee some time in 1973,
13 and that suggests that a new look be taken.

14 Not being presumptive, but I have already
15 met with some of the Institute's staff to see what there
16 is by way of background material, and apparently there is
17 quite a bit, and we would look at that.

18 Let me tell you this as a non-New Yorker; that
19 I was surprised to find the Institute's Staff, given their
20 severe limitations in perception of what, you know -- where
21 the world begins and ends, nevertheless, I found them to
22 be satisfactorily objective for the beginning.

23 Now I'll let you know more about that as we
24 go on, but the fact is that they are anxious to see that the
25 Institute's membership is properly served, and if we do

1 continue with the assignment we have, and we will appreciating
2 knowing all the material that has gone over before, I
3 would think that we would want to invite outside consultants
4 to visit with us on areas where we would need that sort of
5 input.

6 Thank you.

7 CHAIRMAN KANAGA: Thank you, B.Z. I think
8 it's worth noting that there are a lot of non-New Yorkers
9 on both your committee and Austin's who can take an
10 objective view of the matter.

11 MR. DIAMOND: Mr. Chairman, I'm Sam Diamond
12 from Alabama, and I've come to speak to the point, because
13 I don't have a knowledge of geography. The motion that you
14 have before you says to study location in the mid-west. I
15 don't know where the mid-west starts and ends, so for that
16 reason, Mr. Chairman, no objection to your overall motion,
17 I move that you just delete, to the mid-west from the
18 motion, so that the motion is that there be a study made
19 whether the CPE Division could be moved from New York if
20 that decision is made.

21 Thank you.

22 CHAIRMAN KANAGA: Is there a second to that?

23 A MEMBER: Second.

24 MR. DERIEUX: May I speak from up here?

25 CHAIRMAN KANAGA: You will anyway.

1 MR. DERIEUX: If I remember the original
2 motion, it was that an ad hoc committee be appointed. Sam
3 said that a study be made. I would support the motion
4 that a study be made. I would rather not see an ad hoc
5 committee, I think that Planning and Finance can handle
6 this, and I didn't know if that was a part of your amendment
7 or not, Sam.

8 MR. DIAMOND: No.

9 MR. DERIEUX: Then I will make such an
10 amendment when we get there.

11 MR. HUELSTER: Mr. Chairman, if it is
12 permitted by restating the original motion or by offering
13 an amendment to it, I would certainly agree with the change
14 from appointing an ad hoc committee to assigning it to
15 Planning and Finance.

16 CHAIRMAN KANAGA: Who seconded that? Don,
17 if the seconder agrees to that -- does the seconder so
18 agree?

19 A MEMBER: Yes.

20 CHAIRMAN KANAGA: Whoever it was? I noticed
21 six heads said yes.

22 Norman.

23 MR. AUERBACH: Norman Auerbach, New York.

24 I assume with this new amendment now that we
25 are going to be able to take advantage of the cost of eggs in

1 Georgia and get the chicken along with it.

2 My only concern with the change, and I'm
3 sure that being from New York, interestingly, I'm not
4 opposed to a change, the only concern that I would have,
5 Bill, is the question as to whether or not in the development
6 in the technical materials that go into a course, whether
7 there is interaction with the Technical Committees of the
8 Institute, and where would those Committees be needed, because
9 if most of the courses are prepared based upon outside
10 help, professors and others and are not related directly to
11 Committee activities or Committee involvement, then it
12 seems to me that if the economics supported a location
13 other than New York, it would make sense.

14 CHAIRMAN KANAGA: It would seem to me that
15 that would be part of the charge to that Committee, to take
16 a look at all of the ramifications.

17 MR. AUERBACH: I just want you to know that
18 all New Yorkers aren't opposed to moving out.

19 CHAIRMAN KANAGA: I thought you were from
20 Tucson. I didn't realize you were from New York.

21 We have an amendment to the original motion
22 that suggests the deletion, and I don't have the wording
23 of the original resolution, the deletion of the words, to
24 the mid-west, or were those the words that were in there,
25 John?

1 MR. HUELSTER: To a midwestern location, yes.

2 CHAIRMAN KANAGA: To a midwestern location,
3 the deletion of those words. Does anybody have any
4 question, further question on that?

5 We'll put that amendment to a vote. All
6 those in favor of deleting that, to a midwestern location?
7 All opposed?

8 Now we can go back to the original motion.
9 Is there any question on the original motion now, further
10 discussion?

11 MR. BAKER: Newt Baker from Ohio, and I just
12 have an inquiry to direct to my good friend, B.Z. Lee. I'm
13 reading from the Board of Directors minutes February 26th,
14 27th, reading from the report of the Planning and Finance
15 Committee, and that portion of the report on page 13 that
16 states, and had approved the construction budget for
17 development of space on the fourth floor of the Institute
18 Headquarters for the CPE function, and I hope that in your
19 deliberations, B.Z., that you could hold this in abeyance
20 if in fact the Planning Committee takes on this new task.

21 MR. LEE: Well, I'm sorry to say that is
22 probably not possible, and certainly it would become a
23 factor in evaluating the cost-benefit, at least for the term,
24 whatever the term of that lease is, but that is a factor, I
25 believe.

1 CHAIRMAN KANAGA: Sam, I believe your
2 motion has been taken care of with the Amendment, that the
3 proposer has agreed to amend his motion and the seconder
4 has agreed.

5 If there's no further discussion on the
6 item, let's put it to a vote. All those in favor? All
7 opposed?

8 What I would propose to do is to have B.Z.,
9 have you appoint that group and get underway.

10 Are there other items on anybody's agenda?
11 Irv.

12 MR. KROLL: Irving Kroll, California. This
13 is kind of a late reaction to Alan Brout's report, because
14 I'm still on California time, and also the direct and
15 uninvited comment.

16 CHAIRMAN KANAGA: Does California have a
17 different time from Phoenix? I'm just being an auditor.

18 MR. KROLL: I'm somewhat concerned about
19 dealing with lawyers. My experience, both in dealing with
20 my clients and also for our own account is that if you listen
21 and adopt whatever your lawyers advise you to do, you will
22 often not do anything, because it's a natural tendency of
23 our brethren from the Bar to always say, you can't do this
24 and you can't do that, and no.

25 I would kind of hope that Alan and his

1 Committee would be cognizant of the fact that sometimes
2 for the good of a profession one may have to take a risk
3 and go contrary perhaps to what the lawyers have advised.

4 I frankly am concerned about this direct and
5 uninvited solicitation, only from the impact it has on our
6 views as a profession among the general public.

7 I am not concerned about competition, I have
8 no interest in price fixing, and therefore, as far as I'm
9 concerned the real issue is dealing with one another as a
10 profession rather than as crass commercial businessmen
11 trying to take advantage of a situation.

12 I would also hope, and apparently I was
13 wrong, that part of the Committee would be dealing with
14 another form of direct and uninvited solicitation which
15 deals with the raiding of one's employees by another
16 accounting firm, and I gather, Alan, that this one part
17 of the direct and uninvited solicitation was not considered
18 by you.

19 MR. BROUT: You're quite right, Irv. We did
20 not consider, nor do we consider within the charge of our
21 Committee to investigate raiding or freely transferable
22 staff from one firm to another. That's not part of our
23 ball game.

24 With respect to your other statements, we
25 realize that most lawyers are devoutly chicken. Our feeling

1 is that in the climate of today, I have no doubt that the
2 opinion of counsel will be irrefutable. I wish I felt
3 otherwise, but there is substantial antitrust risk in
4 reinstating the old ban, and in banning oral direct
5 uninvited solicitation.

6 We don't feel that that risk is supportable.
7 That's our Committee's tentative conclusion.

8 As I said, it's a progress report. We
9 haven't etched it in stone yet, but that's certainly the
10 way things are tending.

11 CHAIRMAN KANAGA: But the point is well
12 taken, Irving.

13 MR. LEE: May I just add to what Alan has
14 said by saying that the view of new counsel is supportive
15 of the view of Counsel that the Derieux Committee solicited.
16 Now, that counsel was for the Institute, and you may recall,
17 Irv and others, that one of the reasons that this Subcommittee
18 or this Special Committee was assigned to among other things,
19 to seek additional counsel or other counsel, if you will, but
20 that the view that Alan has expressed simply supports that
21 which we have already had.

22 CHAIRMAN KANAGA: Lou,

23 MR. DOONER: Louis Dooner from Florida.

24 Yesterday one of the members of Council spoke
25 against the positive enforcement program of the Institute in

1 connection with review of financial statements on file with
2 public bodies.

3 This program has been in effect in Florida
4 a number of years and has been very, very helpful to the
5 practitioners. It has been an educational process, it has
6 been one that has worked, and I would encourage the
7 Institute to pursue this positive enforcement program with
8 vigor.

9 Thank you.

10 CHAIRMAN KANAGA: Thank you, Lou. Don, did
11 you have something you wanted to deal with also?

12 MR. SCHNEEMAN: It was pointed out to me
13 during our coffee break that our change in the definition
14 section of striking principals and other partner equivalents
15 may cause some misreading of another section which requires
16 that all members, all partners of a firm, must be members
17 of the Institute in order for the firm to hold itself as a
18 member. That was one other section that was focused on
19 as being affected by the change that was made.

20 I asked Chairman Bill if we could get the
21 concurrence of Council to make nonsubstantive editorial
22 changes elsewhere in the Bylaw proposals that might be
23 necessary as a result of changes made at this morning's
24 meeting.

25 A MEMBER: So moved.

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A MEMBER: Second.

CHAIRMAN KANAGA: All in favor?

MR. SCHNEEMAN: Thank you.

CHAIRMAN KANAGA: All opposed?

One thing that I would like to ask for some views from this body this morning is whether we should continue to use a resort location such as the Arizona Biltmore or at Boca or Doral or The Breakers in Florida, whether we should go into a city location, whether we should find one single location and go back to it every May, and whether or not we should try to conclude our Meetings in two mornings rather than -- or two sessions rather than three, that is may be if necessary starting earlier than 9:00 o'clock.

I'd appreciate it if any of you who have views on the matter would express yourself.

MR. MITCHEM: Dennis Mitchem, Arizona. As Chairman of the Board of Directors of the Phoenix and Valley of the Sun Visitor and Convention Bureau, I would suggest that we meet annually at the Biltmore, and if anything, we expand the number of days.

(Applause.)

CHAIRMAN KANAGA: Thank you, Dennis.

MR. GARRISON: Wayne Garrison, Oklahoma. I have no objections to meeting at the Biltmore, but I think our

1 room are running about \$125 a night, and if we'd have been
2 here about ten days later, they'd be about 55 or 60, so I
3 wonder if they paid more attention to that to get the price
4 breaks.

5 CHAIRMAN KANAGA: We could ask if it gets
6 warmer 10 or 12 days from now, Dennis.

7 A MEMBER: Couldn't get a lot warmer, could
8 it, Dennis?

9 MR. MITCHEM: Could be just as nice as this
10 or warmer. The average temperature gets warmer as the
11 summer goes on, but May is a pretty nice month usually,
12 there wouldn't be much difference.

13 CHAIRMAN KANAGA: That is certainly -- the
14 reduction in price is certainly true on the East Coast, I
15 think June 1 is the breaking point. May 24th, is it?

16 If any of you do have any views on that
17 particular matter, you can make them known to anybody on
18 the Board.

19 I thank you for your attention. I have an
20 announcement that the -- I recognize the handwriting. The
21 Awards Committee will meet in the Kingman Room down the
22 hall from here immediately after we conclude.

23 Thank you, Ladies and Gentlemen.

24 (Proceedings recessed.)

25 * * * * *

1 THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC
2 ACCOUNTS, SPRING MEETING OF COUNCIL, was called to order
3 at the Arizona Biltmore Hotel, Phoenix, Arizona, on May 13,
4 1981 at the hour of 9:00 o'clock a.m. by Mr. William
5 Kanaga, Chairman.

6
7 CHAIRMAN KANAGA: Good morning, Ladies and
8 Gentlemen. It's a pleasure to greet you on this final
9 morning. For some reason they are elevating the rostrum
10 this morning. I don't know that we need to get any of
11 this Panel any higher than they already are, but I can
12 really look down and see everybody this morning, I can
13 get a count, but I don't think I'll take one.

14 There is a quorum, Don, the quorum is still
15 30, so --

16 The first item this morning is the opportunity
17 that we give our friends in Illinois to tell us about the
18 great things that are going to happen this fall at our
19 Annual Meeting, so I want to welcome to the podium Carmen
20 Milano.

21 The fact that Chicago is having the Meeting
22 this year is causing excitement, because meetings there
23 have always been well attended by American Institute Members.

24 Carmen is Chairman of the Annual Meeting
25 Hospitality Committee, and he's going to give us all the

1 reasons we should show up in October in Chicago.

2 Carmen.

3

4 C A R M E N M I L A N O

5

6 MR. MILANO: Thank you, Bill. If you look at
7 my height, you know why they raised the platform. For you
8 in the back, I am standing.

9 Frankly, Bill, before I get into a sales
10 pitch for the Annual Meeting, I wanted to ask for, or
11 suggest that you do hold Spring Council Meetings in
12 Chicago, and you have already done that by saying what a
13 great attendance we get in that city, but we have some
14 great convention centers with golf and tennis in our
15 suburbs, and I wish you would take them into consideration.

16 I really appreciate the opportunity to sell
17 the Annual Meeting to each of you. I know each of you
18 who serves the Institute as a Council member, and many of
19 you who serve as Committee members.

20 Frankly, there's no more pleasurable
21 Committee to serve on than to serve on the Annual Meeting
22 Hospitality Committee, because we have the pleasure of -- we
23 have the charge, I should say, of planning the biggest
24 party the Institute holds all year long, and I get the
25 added pleasure of inviting each of you to come to my hometown

1 and come to the party.

2 Chicago is the site of the 94th Annual
3 Meeting. October 4th, 5th and 6th are the dates. Many of
4 you know the last three Conventions were held in coastal
5 cities, San Francisco, New Orleans, Boston, marvelous
6 conventions, but frankly we are happier coming back to the
7 heartland of the midwest, and we look forward to greeting
8 you in Chicago.

9 I know each of you would like to be in
10 Chicago or will be in Chicago for the Council Meeting on
11 October 3rd. I invite you and your spouse to stay on the
12 extra three days and attend the Annual Meeting. I promise
13 you both will enjoy it very, very much.

14 Chicago is always vibrant and exciting. Its
15 magnificent skyline and miles and miles of park and beaches
16 will excite you and delight you, I'm sure.

17 Our cultural attractions include theatres,
18 concerts, museums of every kind. You won't be disappointed.

19 Chicago is reknowned for its many fine
20 restaurants, whether you like the chic or the neighborhood
21 ethnic, you'll find many to satisfy your tastes.

22 Our two convention hotels are the Hyatt and
23 the Marriott which are just recently completed hotels.
24 They're right around the corner from State Street, that
25 great street, and right at the foot of the Magnificent Mile

1 of Michigan Avenue Shops and Boutiques.

2 Mrs. Clayton Ostlund' Committee has arranged
3 a number of tours for you. You may select to take the
4 North Shore tour including a visit to Northwestern
5 University, the B'nai Brith Temple, and some of those
6 elegant estates along the Lake Shore, or you might select
7 a tour of the Frank Lloyd Wright homes around the Chicago
8 area. He's our famous Chicago Architect who greatly
9 influenced the design of this Biltmore that you are sitting
10 in right now.

11 You may also tour the world famous
12 Merchandise Mart, and then right up to the top of the
13 Sears Tower, the tallest building in the world, and see all
14 of Chicago, parts of Michigan, parts of Indiana and a little
15 bit of Wisconsin.

16 The Convention's opening reception will be in
17 the Great Hall of the Field Museum of Natural History.
18 There among prehistoric elephants and dinosaurs you can
19 greet your old friends and enjoy good food.

20 Our concluding banquet for the Convention
21 will include an authentic Chicago night club review, and
22 of course some good dance bands so that you can dance until
23 the wee hours as everyone does in Chicago.

24 We of the Hospitality Committee, John Ostlund,
25 John Meinert and many other fine guys and gals look forward

1 to personally greeting each of you in Chicago.

2 See you in Chicago. Thank you.

3 (Applause.)

4 CHAIRMAN KANAGA: Thank you, Carmen. I
5 noticed you didn't mention that we should reserve our
6 tickets for the Cubs in the World Series. The season may
7 be over for them by that time.

8 Next item on the Agenda is a report of the
9 Committee on Management of an Accounting Practice. That
10 Committee has been in existence for a number of years and
11 has provided substantial assistance to small firms in
12 organizing and managing their practice.

13 Jake Netterville, the Chairman of that
14 Committee, has agreed to address the Council, provide us
15 with a better appreciation of what the Committee is doing
16 currently for firms of all sizes in the administration of
17 their practice.

18 Jake.

19

20 J A K E N E T T E R V I L L E

21

22 MR. NETTERVILLE: Thank you, Bill, and good
23 morning to all of you.

24 I welcome the opportunity to come before
25 this body this morning and talk to you, in fact brag to you a

1 little bit about what our Committee is doing for our
2 profession, the small, medium and large sized practitioners,
3 as well as to create a certain liaison between these
4 practitioners and the American Institute.

5 I think that after my remarks you will
6 understand my comment when I say to you that I believe that
7 our Committee is one of the most visible committees to the
8 practitioners of any in the Institute.

9 Let me give you a little background as to our
10 make-up.

11 Each year seven new Committee members come
12 on. We have a total of 21, so we serve a three year term.
13 We choose these seven Committee members from some 2 to 300
14 applicants, so you can see that the Committee is one that
15 many practitioners want to serve on, and for good reason.

16 Most of the members have been Society
17 Presidents, managing partners of their firms, so we have
18 a common background, and because of this common background
19 quite a lot of esprit de corps exists at that Committee
20 level, and it's the kind of thing that after you have
21 served three years, you really are disappointed to go off
22 the Committee, and I think several of the "MAPPERS" can
23 attest to that.

24 I see a number of them out in the audience
25 today, and we often get together to relate stories on our

1 Committee.

2 Let me briefly tell you something about our
3 make-up and what we do for the Institute.

4 The objective of the MAP Committee is to
5 generally assist practitioners in the operation of their
6 practice. That's very general, and I'll tell you a little
7 bit about how we go about doing this.

8 The two biggest projects that we do is the
9 preparation and printing of the MAP handbook and the four
10 Practice Management Conferences that go on each year. Both
11 of these two projects have been in existence since the
12 mid '70's, about 1973, to be exact.

13 I'm sure, or at least I hope most of you are
14 familiar with the MAP handbook and in fact have a copy of
15 that Practice Management Bible, if you will, in your
16 office.

17 It's an unusual kind of book. It's a book
18 that is really never complete, it's always out of date,
19 and there is no absolute right or wrong to the philosophy
20 in the book, but believe me when I tell you, it's a best
21 seller.

22 Let me give you a little statistic that you
23 may be interested in. There are some 29,000 practice units
24 in the Institute, and as best we can determine, some 19,000
25 of these are made up of sole practitioners, so that gives

1 about 9,000, what you will call firms.

2 We have sold 10,000 books, so we have a
3 pretty good audience out there, and I believe those who
4 have the book will tell you that it's one of the best
5 things the Institute has done.

6 Every 18 months we put out a supplement.
7 The book is, of course, looseleaf, and we put out a supplement
8 that brings things up-to-date. This year's supplement
9 comes out next month, in June, and will be the fourth since
10 the original book was printed.

11 This year there will be some 28 new or
12 revisited chapters, and in fact we have completely reviewed
13 the book from the eyes of the sole practitioner. We want
14 to bring him into a better practice management.

15 The other very large project of our
16 Committee are the four Practice Management Conferences that
17 have been held since 1972. Last year we set all attendance
18 records for these conferences, over 1,000 people were in
19 attendance, and this is the most we have ever had.

20 In fact, the first two conferences for the
21 first time in our history were sellouts.

22 It's very unusual to plan a conference for
23 275 people and have to turn away folks when that number
24 exceeds 350, so we were very pleased that we were giving
25 the practitioners something they obviously wanted.

1 Although the formats for the conferences have
2 basically remained the same since 1972, we are constantly
3 trying to improve that format based on comments of the
4 people in attendance.

5 This year's conference will change a little
6 bit in that instead of choosing four sites throughout the
7 United States in which to hold the conferences, we have
8 decided on two clusters, one in Denver in July, we'll meet
9 Monday and Tuesday, and then have one day off and meet
10 Thursday and Friday, and then in Atlanta in October under
11 the same format.

12 The planning process for these conferences
13 really take about 18 months from the time we decide on
14 topics to try to get a good fit into each conference, to
15 the selection of speakers, to a planning session that we
16 have where we invite all the speakers to coordinate their
17 topics. You can see it's quite an undertaking.

18 It's really practitioners sharing their
19 experiences with other practitioners.

20 The mix of the audience usually runs between
21 sole practitioners and very large local firms and regional
22 firms, and at each conference we seat people with the same
23 sized firms, so there's quite a lot of exchange of ideas
24 between the participants.

25 We try to pitch the conferences on a very

1 practical basis. We encourage the speakers to give as many
2 hand-outs as possible. We want it to be really a hands-on
3 learning experience, and if the ratings are any indication,
4 we are being successful in that endeavor.

5 I suppose when we first started having the
6 conferences, mostly managing partners attended, but as we
7 have progressed during the years we are encouraging not
8 only managing partners, but all partners to attend. It's
9 not unusual for a comment to come from the audience, when
10 asked the question, what would you do differently about
11 these conferences, and the answer usually is, I would make
12 sure that when I get home I can convince my other partners
13 to come next year.

14 It's much easier to manage when those you are
15 managing have attended some of these conferences.

16 A new conference that we have come up with in
17 the last two years is entitled "Quality of Life". We have
18 had this two and a half day conference for the last two
19 years in January in Denver to really rave notices. Each
20 year we have averaged about 125 people, and we have
21 encouraged husbands and wives, and most of the audience
22 have been made up of husbands and wives.

23 It's an unusual conference. Instead of
24 practitioners telling us about our practice, we have brought
25 in consultants to talk to us about stress in our profession,

1 some of the problems that we as managing partners and
2 partners must deal with as it relates to motivating people,
3 nutrition in our lives, physical and emotional fitness that
4 we must cope with in the practice of public accounting.

5 These conferences have been really outstanding,
6 and those who have attended vow to return each year. We'll
7 certainly continue to do Quality of Life Conferences, either
8 one a year or perhaps two a year.

9 Our newest undertaking takes place July 16th
10 and 17th in Chicago. It is a conference devised by our
11 Committee strictly for the small practitioners. We don't
12 set the size of the Conference, but we encourage sole
13 practitioners and practice units of perhaps two and three
14 partners. The Conference was planned by members of our
15 Committee who are themselves this size, and we expect to
16 focus all of the conference proceedings on the needs of the
17 small practitioner. We are excited about the early
18 registration and hope that it will be a success as well.

19 Since 1975 our Committee has sponsored a
20 meeting each July in St. Louis for all of the State MAP
21 Society Chairmen. Here we are getting together and
22 discussing with them ways to better their own state program.
23 We give them ideas on how to set up MAP Conferences, how to
24 engage in MAP round tables, and generally hope that they
25 will do on the state level what we have been able to

1 accomplish on the national level. It gives us a two way
2 communication between those in the state who are doing
3 somewhat the same thing that we at the national level are
4 doing, and it has been most successful.

5 Even though the program each year is somewhat
6 the same, you can appreciate that the MAP Chairman at the
7 state level changes each year, so we have a new audience
8 almost every other year.

9 I suppose one of the projects that we have
10 had since, oh, the mid '70's, and one that we are a little
11 disappointed in is the Local Firm Management Review Program.
12 This has been a disappointment, I say, because we have not
13 been able to market and publicize this program like we would
14 like. I think it's an excellent program, and so do those
15 who have had this management review in their firms, but
16 with Peer Review and with our seemingly not having enough
17 time to really publicize it, we have not gotten as many
18 reviews as we had hoped.

19 We took steps to improve this last year in
20 Houston at one of our Conferences and really made a pitch
21 for the local firm review program, and we are planning to do
22 some 14 of these this year, so it is making progress.

23 You who attend the Annual Meeting each year
24 know that our MAP Committee puts on two sessions at the
25 Annual Meeting relating to MAP topics. Last year one of our

1 sessions drew the largest number of participants, and the
2 other drew the third largest number of participants, so
3 by this you can tell that there is quite a lot of interest
4 in the MAP area.

5 In Chicago this year we will again have
6 two sessions, one on partner evaluation, and the other on
7 mergers and acquisitions, two very hot topics in our area.

8 During last year we have formulated and put
9 together a MAP round table discussion manual. This is a
10 small booklet to enable small groups to have MAP round
11 tables, be it a breakfast meeting or a night meeting. It
12 could be done at the Chapter level or it could really be
13 done in any city where there is some chemistry between
14 five or six or eight small firms.

15 Our guidelines just simply enable you to
16 get the discussion started and to tell you what some of
17 the topics are, and it has been well received by those
18 who have used it.

19 The Staff of our Committee handles some 2
20 to 300 phone call requests from practitioners throughout the
21 country each year, and if I might give you a personal note,
22 if the other Committees of the Institute are staffed by as
23 fine of people as ours, then I don't see how the
24 Institute has any committee problems.

25 Nancy Meyers, who heads our Staff, and Jim

1 Flynn are simply excellent. We could not ask for better
2 cooperation and more efficient work from these two people,
3 and Bill, I want you to know that, because we are delighted
4 with the help that they give us constantly.

5 If the phone calls that come in to them are
6 not the kind that they can answer, then of course they route
7 those questions to the members of our MAP Committee.

8 Let me mention a couple of new projects that
9 we have gotten into during the past year.

10 We formed a task force to search for articles
11 for the Practicing CPA, Graham Goddard's magazine, which
12 discusses practice management tools and techniques, and
13 this task force is to assist Graham in the finding and
14 publishing of articles.

15 We have recently finished a local firm
16 recruiting leaflet which is now being distributed to colleges
17 and universities. This leaflet is to show to the college
18 graduate something about local firms. If they decide to
19 stay in the local area, then the booklet we have prepared
20 for them will give them some idea as to what they can
21 expect.

22 We also formed a task force this year to
23 review the MAP courses being taught through the CPE
24 Division. This task force did a wonderful job in examining
25 some 33 MAP courses. I had no idea that we were actually

1 teaching that many separate courses through the Institute,
2 but we did a thorough analysis of some 33 courses with the
3 idea of improving, combining or adding where we felt
4 appropriate.

5 This year we were co-sponsors with the
6 Architectural Woodwork Institute for an office design
7 competition. The award winner will be selected in about a
8 month, and hopefully we will be able to publicize that
9 office design layout to our practitioners.

10 We fell in line -- this was the fourth year
11 that the architects have had such competition, and we
12 fell in line behind the bankers, lawyers, and doctors, and
13 were pleased to do so.

14 Two new projects that we have undertaken are
15 as a result of the Derieux Committee. We have been asked
16 to develop guidelines for engagement proposals, which we
17 are now doing, and also to attempt to develop a standard
18 consulting contract that would be signed between two CPA
19 firms, one being brought in for some specific services that
20 would deter the replacement of these firms, and we are
21 presently working on that as well.

22 I think from this very short synopsis of the
23 activities of our Committee, you can see that very large
24 exposure that we have with the practitioners throughout the
25 country. Perhaps we are, or our Committee is the eyes and

1 ears of the local practitioner through the Institute, and
2 we are pleased to be that.

3 We want to be able to relate to the local
4 practitioners, to be his voice at the Institute level. We
5 are delighted to be a part of the Institute format and hope
6 that our Committee activities will increase as they have
7 in the past years.

8 All of you work with Committees, you're
9 either Society Presidents or heads of Institute Committees
10 or whatever, and I picked up over the years a little
11 comment as we deal with Committee workers, those who join
12 associations and are part of associations that I thought
13 was a little clever, but I certainly didn't write it, but
14 I want to share it with you this morning, and perhaps you
15 can relate to it as well.

16 Some Committee members are like wheelbarrows;
17 no good unless pushed. Some are like canoes; they need to
18 be paddled. Some are like kites; if you don't keep a string
19 on them, they fly away. Some are like footballs; you can't
20 tell which way they're going to bounce. Some are like
21 trailers; no good unless pulled. Some are like balloons;
22 full of wind and likely to blow up unless handled carefully.
23 Some are hundred percent members, like those on our MAP
24 Committee, who work hard, contribute greatly and serve our
25 profession well.

1 Ladies and gentlemen, it's been a pleasure
2 to bring you up-to-date on the activities of the MAP
3 Committee. Thank you.

4 (Applause.)

5 CHAIRMAN KANAGA: Thanks to you, Jake.

6 The last item on the Agenda is a review of
7 developments in Technical Standards in our professional
8 arenas.

9 As the governing body of the Institute, all
10 of us on Council have an obligation to stay current with
11 developments in Technical Standards.

12 In order to highlight recent developments in
13 that area I have asked Phil Chenok to conduct a panel
14 session of representatives of our major Technical
15 Committees. Therefore, I turn the program over at this
16 time to Phil who will introduce the Panel members to you.
17 The Panel will continue until approximately five minutes
18 of 11:00.

19 Phil.

20 MR. CHENOK: Where are you, fellows? First
21 of all, I'd like to welcome our Panelists and I will
22 introduce them.

23 On the far left is Jim Leisenring, Chairman
24 of the Auditing Standards Board.

25 A MEMBER: Our right.

1 MR. CHENOK: Your right, my left. Next to
2 him is Bill Raby, Chairman of the Federal Tax Executive
3 Committee. The man in the middle is Chuck Kaiser, a member
4 of the MAS Executive Committee. Mitch Krasnoff is on his
5 immediate right. Mitch is a member of our Accounting
6 Standards Executive Committee, and on my immediate left
7 is Bob Miller, Chairman of the Accounting and Review
8 Services Committee.

9 I'd like to thank you gentlemen in advance
10 for agreeing to be with us this morning, and as Bill
11 Kanaga set the tone yesterday for an injection of questions
12 as we go, to the extent that as we move along, anybody
13 from the Council has a question that they'd like to raise
14 with any member of the Panel, please feel free to do so.

15 Let me get started with ACSEC. Mitch, you're
16 the Senior Committee of the Institute authorized to speak
17 on matters affecting financial accounting standards. Would
18 you give us some idea of ACSEC's major activities?

19 MR. KRASNOFF: Well, as you say, we are
20 the official spokesman for financial accounting and
21 accounting matters, and in that regard one of our main
22 activities relates to our relationship with the FASB where
23 either a task force of ACSEC itself or one of the free-
24 standing committees going through ACSEC, like the Mill
25 Standard Committee or the Bank Committee will study the

1 various FASB exposure documents, whether it be discussion
2 memorandum or proposed standards, and develop and approve --
3 well, the Committee will develop and ACSEC will approve
4 the official AICPA position in commenting on an exposure
5 document.

6 I know that the Board, the FASB, looks forward
7 to ACSEC's comments, because our comments generally, because
8 of the time we spend, have a great deal of depth to them.

9 The other basic thing that we do in the
10 present mode of ACSEC is we develop issue papers, which I'm
11 sure most of you are familiar with.

12 An issue paper is basically a document for
13 the FASB which identifies what ACSEC believes to be a
14 problem that they have identified in the accounting or the
15 reporting area that needs addressing in the 203 literature,
16 and the issues paper will explore the problem or indicate
17 what literature, if any, there is on the area, it will
18 develop recommendations and go to FASB for their
19 consideration.

20 Finally I guess what you would say, Phil, is
21 that we just maintain a continuous relationship both with
22 ACSEC and with the FASB.

23 The Planning Subcommittee of ACSEC, which I
24 am a member, quarterly meets with both the ACSEC and the
25 FASB, and probably even more important than that, what a lot

1 of people may not realize, if they haven't attended our
2 Meetings, is that a representative of the FASB attends all
3 of our Meetings, sits around the table, participates in the
4 discussions and is most helpful to us in sharing with us
5 what he perceives to be the Board's position on these
6 papers. He's not a member of ACSEC, he has no vote, but
7 he does participate in the discussions.

8 So that basically is what we do.

9 MR. CHENOK: Sounds to me like you're
10 reasonably well satisfied with the Institute's relationship
11 with the FASB? I know that that is a kind of relationship
12 that has been changing over the years. How do you think
13 it's going? Are we doing the best job that we can be
14 doing with the FASB, and what kind of problems have you
15 had over the years in dealing with the FASB? What areas
16 could we be making improvements?

17 MR. KRASNOFF: Well, you're asking a lot.

18 Well, you're right that our relationship to
19 the FASB has evolved, and it has changed basically as a
20 result of the Board's Statement 32 that they issued about
21 two years ago where they announced that they intended to
22 take over the literature that ACSEC had developed in the
23 specialized industry, so in the past we used to issue
24 position papers to FASB, and if it was on an area that
25 basically was broad and pervasive throughout all industry,

1 the Board would take the position paper and use it as the
2 basis for one of its pronouncements, and if it was in a
3 narrow specialized area they would send it back to ACSEC,
4 and that, of course, is the genesis of the SOP that we
5 issued.

6 Now, we don't issue SOP's any more. Well,
7 there's a couple that we are still issuing, there will be
8 three or four more SOP's, what we refer to as pipe line
9 documents which were in process and were envisioned when
10 the FASB adopted FASB 32, but basically we don't issue
11 SOP's any more, we now have these issues papers, and we
12 send them up to the FASB.

13 Now, generally the FASB acts on them. There
14 are various things that the FASB can do. They can agree
15 that it's a problem and put it on their agenda.

16 For instance, the pronouncement that came
17 out three or four months ago of letter carriers was a
18 direct result of a problem identified by ACSEC, a position
19 paper, an issues paper developed by ACSEC, and the FASB
20 acted on it.

21 At other times they'll take our issues papers,
22 I'm still calling them position papers, I'm used to the
23 old terminology, they're issues papers, they'll take our
24 issues papers and they'll say, yes, there's a problem, but
25 it's really part of a broader problem, and we are not going to

1 act on it now, we'll take it under advisement, so to speak.

2 Many times this is because the Board feels
3 that they want to wait until they get a little further in
4 the conceptual framework project. I mean the best example
5 of this is the whole area of consolidations.

6 ACSEC has developed a whole series of issues
7 papers, the most famous of which was the push-down accounting
8 problem, and the Board has agreed with the papers, they
9 agree there's a problem, but they're just not acting on them.

10 MR. CHENOK: You better just describe in a
11 couple of sentences what the push-down accounting problem
12 is.

13 MR. KRASNOFF: Well, the push-down accounting
14 problem is the desire on many people's part, and what most --
15 a lot of people see as the correct accounting, that when you
16 follow ABA 16, and I hope I don't have to explain ABA 16
17 to you folks, but when you have purchased accounting --

18 MR. LEISENRING: I'd like you to explain ABA
19 16.

20 MR. KRASNOFF: We have to be out of here by
21 five until 11:00, didn't you hear?

22 Push-down is the acquiring company in its
23 financial statement, of course, under purchase accounting
24 sets up the basis of the assets based on the purchase price
25 of the company, but when you issue financial statements of the

1 acquired company, nothing has happened on that company, so
2 it retains its historical cost basis, and there are many
3 in the profession, including ACSEC, I guess I should say,
4 since our position paper, our issues paper came to the
5 conclusion that there should be push-down accounting, who
6 feel that when you have a hundred percent change in ownership
7 of a company through an acquiring purchase, that that new
8 basis of assets should be reflected in the financial
9 statements of the acquired company as well as the acquiring
10 company.

11 Incidentally, I think the Board has agreed
12 to this too, because they had initially proposed a Technical
13 Bulletin on it which would have permitted this, but then
14 at the last minute they decided, no, we better not address
15 it, it's really part of the pervasive consolidation program,
16 and we'll hold off.

17 Obviously as you can tell from what I'm
18 saying, ACSEC sometimes does get a little pushy because
19 they think these things should be acted upon, and we don't
20 have the authority to act on them, but at least we know that
21 the Board is, shall we say, talking it under advisement.

22 MR. CHENOK: So you think that there really
23 does continue to be a role for ACSEC within the AICPA and
24 in terms of its relationship with, for example, FASB and
25 the SEC?

1 MR. LEISENRING: Oh, I definitely do. I mean
2 as long as you agree that the practicing CPA's who have
3 often encountered these accounting problems and is in the
4 best position to identify them, you have to have some
5 official spokesman to identify the profession's problems,
6 to in effect reduce them to writing in some way and get them
7 to the FASB.

8 I mean any of the five constituent sponsors of
9 the FASB can do this, and some of the other organizations
10 do, but we are told by the Board that none of the others,
11 none of the other four constituents do it nearly to the
12 degree that we do, and in the effective manner that we do,
13 because I guess the others don't have the vested interest
14 that we do in getting these practice problems resolved.

15 So that basically is the way our role has
16 evolved, and once all the SOP's are converted, and
17 presumedly they'll be maintained by the Board also, that's
18 another thing that we will be doing, is just as over the
19 years we have had to amend an SOP, we will now have to
20 identify the need for the amendment and call it to the
21 Board's attention so that they can interpret or amend an
22 FASB pronouncement.

23 MR. CHENOK: Thank you. Bob and Jim, while
24 we are on the subject of relationships between Committees,
25 the Auditing Standards Board and the Accounting Review

1 Services Committee represent two areas where there could be
2 significant overlap, duplication of efforts, and to some
3 extent an opportunity to develop differences of opinion.

4 An arrangement was worked out whereby the
5 two Committees could work effectively with one another.

6 Bob, perhaps you could review that arrangement
7 and explain why it works as well as it does, and then we
8 might ask Jim to take the con position on that.

9 MR. MILLER: Phil, I guess you're being modest
10 in talking about the initiation of this process. For those
11 of you who don't know, our late lamented Bill Gregory, of
12 course, was Chairman of the Accounting and Review Services
13 Committee when it was formed, and Phil Chenok was Chairman
14 of the Auditing Standards Board. I guess it was AUDSEC
15 and which became ASB, and an arrangement was worked out that
16 I personally believe has effectively worked, of staying
17 close to each other's projects, knowing what is going on,
18 at the earliest possible time identifying a conflict which
19 could arise, might arise, addressing it in a joint, what's
20 called a Joint Conference Task Force consisting of three
21 people from the Accounting and Review Services, three from
22 the Auditing Standards Board.

23 We will be meeting in the next couple of
24 weeks, for example, on what we call early warning with
25 respect to a couple of items that may or may not become a

1 problem, but it has worked well, the Joint Conference Task
2 Force has had occasion to meet on many times on friendly
3 grounds.

4 I personally believe that while there are
5 all of the seeds of dissension between the two groups, that
6 we have been able to reconcile our problems without anybody
7 showing too many scars.

8 Jim, do you --

9 MR. LEISENRING: I don't have a different
10 opinion. I could point out since I have been Chairman, you
11 haven't issued any pronouncements, so it's a lot easier for
12 me than it was for Phil, as I recall too.

13 MR. MILLER: I won't be controversial. Jim,
14 there is one pronouncement we were about to issue that we
15 did settle, and that relates to other financial information,
16 and I think for good reason we indicated that we do not
17 want to have confusion in reports on less than financial
18 statements by having some procedure other than the
19 limited assurances and implicit agreed upon procedure, and
20 we agreed to lay off, we agreed to in effect, and there's
21 an interpretation shortly coming that will point this out
22 a little more clearly than is presently known, and direct
23 those people who are in the unaudited environment to follow
24 the guidance in SAB 14 with respect to agreed upon
25 procedures, and not to look to us for a separate kind of

1 limited assurance which might be very confusing to users,
2 but that came from Joint Conference Task Force discussions,
3 discussions by our Committee, and though it is a non-SSARS,
4 I think it's solved the practice problems, it found a way
5 to do it without confusing users of reports.

6 MR. CHENOK: Bob, you've touched on one area
7 where the Accounting and Reviews Services Committee is using
8 the existing SAS literature. That literature is matured at
9 this point, it's fairly comprehensive, covers a lot of areas.
10 I guess that raises the question, what is the relationship
11 between the SAS's and the SSAR's? If you had a subject, for
12 example, like planning and supervision, would a practitioner
13 look to the SAS's for guidance on that subject or would you
14 intend over a longer period of time to incorporate that kind
15 of literature with the Accounting and Review Services
16 Standards?

17 MR. MILLER: Well, let me answer that, Phil,
18 with a no, but. If you go back to this Council, the
19 charges that were developed for the two groups, the Auditing
20 Standards Board charge in May of '78 is fairly clear, that
21 it addresses audit, statements on auditing standards, and
22 basically the audit environment, and I believe the charge
23 from Council in May of '77 to the Accounting and Review
24 Services Committee is fairly clear, that we address
25 procedures and standards of reporting for unaudited

1 financial statements, otherwise known as financial
2 instruments of non-public entities.

3 So the question is, does SAS apply to
4 unaudited financial statements. The answer would be no,
5 but when SSARS developed, it was very carefully developed
6 in tandem, I guess is the word, to the existing SAS's, and
7 we tried to, and I think succeeded in most cases to address
8 the question, should a particular SAS apply, and should it
9 be incorporated perhaps with some different wording in effect
10 in SSARS 1, should it be differentiated, and there are some
11 footnotes, if you are familiar with SSARS 1 that relate to
12 specific SAS's, and say you might choose to consider the
13 guidance.

14 That's perhaps where I would settle down,
15 that if the SSARS 1 takes a different position from an
16 SAS, then the unaudited area, you follow the SSARS, but
17 the SSARS itself has been constructed to use the guidance
18 that already exists in, let me call it, paralegal
19 situations, in the SAS literature.

20 Now, we have a couple of interpretations
21 coming our shortly that will relate to that kind of thing,
22 and I will just mention other financial information.

23 We do not intend, at least the time that I
24 have been on the Committee, and I hope my successors will
25 take the same approach, to produce a second body of SAS's.

1 I do believe that by interpretation we will continue to
2 clarify those situations where you might pretty closely
3 stick to an SAS.

4 Certainly there's no question that SAS's
5 are guidance in those cases where you've got professional
6 judgment to make, and let's face it, it was never our
7 intention to create a code with respect to unaudited
8 financial statements. There's a lot of judgment involved.

9 So that's a long answer to a short question.
10 No, you don't have to follow the SAS's, but yes, you darn
11 well better be familiar with what they say and apply them
12 with your judgment.

13 Now, just stretch it one second without
14 getting into this topic at all in detail, we do have an
15 exposure draft out on communication with predecessor or
16 successor accountants, because the Committee is taking a
17 little different approach.

18 The Committee is saying, well, it is
19 required in an audit, it may be desirable, but not required
20 in an unaudited atmosphere.

21 There are people who agree and disagree with
22 it, but at least it's a position, but that's a case where
23 there in effect would be a difference between the two, and
24 that does require that we come out with a SSARS.

25 MR. CHENOK: Bob, there is one problem that

1 seems to be recurrent, and some believe that really hasn't
2 satisfactorily been addressed by SSARS, and that is the
3 problem of service bureau computer-prepared financial
4 statements. Some of these statements apparently depart
5 from GAAP and they also depart from any other comprehensive
6 basis of accounting that could be acquired.

7 For example, inventory might not be adjusted,
8 important accruals may not be made, income taxes may not be
9 provided.

10 Before I get into the more detailed question,
11 can you just refresh our memory as to the reporting
12 requirements of SSARS 1 in that kind of a situation?

13 MR. MILLER: Well, SSARS 1 maybe over-
14 conscientiously avoided the word association, but it
15 really says the same thing. I mean there may have been
16 some internal differences as to what association was, but
17 I don't think SSARS 1 says forget association.

18 It does say that any time that an outside
19 accountant submits financial statements to his client or
20 anyone else, he must report, and it then goes on and
21 establishes that there are only two types of reports in
22 the unaudited environment, one being a review of limited
23 assurance, and the other being a compilation non-expression
24 of assurance.

25 Now, that is supplemented, of course, by the

1 fact that when you report on financial statements that are
2 not, let me say, wholly in accordance with GAAP or other
3 comprehensive basis of accounting, that you either correct
4 the statements, which in the environment we are talking
5 about is what happens in 98 percent of the cases, because
6 you're preparing the statements, but it goes on to say
7 that if there is some reason why you can't revise the
8 financial statements themselves, you then must modify your
9 report or walk away.

10 Now, we have a task force that is bringing
11 out some interpretive material on what we mean, how
12 remotely withdrawal might be, but this reporting
13 obligation is pretty absolute.

14 Now, if you take this over into this
15 computer area, of course you start to get to the point
16 where there can be all kinds of departures in SSARS 1, and
17 SSARS 1 provides for the fact that if there are departures,
18 you can modify your report, but there are any number of
19 steps that you start to reach as you go down that road.

20 Incidentally, let me say this, Phil, though
21 I think we properly can, because the practice problem is
22 in that respect, talking about this problem with respect
23 to computer-prepared financial statements, I personally
24 think it's more pervasive, because if we are to permit,
25 which we will be talking about in a minute, or are not to

1 permit any different type of service reporting, whatever you
2 might call it, my personal feeling is that the means of
3 developing that financial statement are not the critical
4 point, but they do represent a big practice problem, so that
5 I can't really visualize a change that would say, well, if
6 you prepare the statement on a computer or you develop it
7 on a computer, you can report in one way, but if you do it
8 on a piece of paper, that you do it a different way.

9 So while I think we should continue to
10 address it in the sense of the computer, I do think that
11 any solution that might be forthcoming would be more
12 pervasive than that.

13 MR. CHENOK: Would that apply, Bob, in the
14 case of a CPA that ran a service bureau, where the
15 information was really being processed by non-professionals
16 and where the information was submitted back to clients
17 without anybody really reviewing it? I understand that
18 this is something that is done across the country in practice.
19 Suggestions have been made to your Committee that maybe
20 this kind of a -- they use the term non-service, ought to
21 have a separate report that would read something like, these
22 financial statements have not been compiled, reviewed or
23 audited by independent CPA's, and that your Committee is in
24 fact looking at that suggestion.

25 Can you give us some insight as to what the

1 current thinking is within the Committee?

2 MR. MILLER: The word, looking at, is a good
3 way to put it.

4 We have had a task force on computer-prepared
5 financial statements for well over a year, had some people
6 whose practices were strongly oriented to the use of
7 computers at various levels, service bureau levels, further
8 up the line and so forth.

9 Perhaps to take two cuts at your question,
10 because I think there are two definitely separable kinds
11 of problems, number one, we are considering through a task
12 force that has examined this whole question of reporting
13 obligations and so forth, but we are considering whether
14 there could be designed a form of report, not a form of
15 a report, but a modification of the compilation report,
16 perhaps is a better way to put it, similar to paragraph
17 19 to 21, SSARS 1 treatment does, and that is to add to a
18 basic compilation report a paragraph that says, management
19 has elected to omit all disclosures, and this paragraph
20 would say, it sounds ridiculous when you say it, but think
21 about it a little bit, management has elected to depart
22 from measurement GAAP principles.

23 Now, you know, you jump; I jump.

24 There is an argument that can be made that
25 when you open the door as well as SOP 38 with restricted use

1 and SSARS 1 did with the omission of disclosure, saying
2 that a financial statement doesn't have to really be a
3 financial statement, then there is some logic to those who
4 advocate, well, if you can leave the disclosure out, and
5 they're pretty damn important, why can't you leave out
6 because the user says he doesn't want them an adjustment
7 of the inventory or a provision for taxes, because these
8 get into -- I have to use the word expediciencies.

9 Why aren't these things done? Because it's
10 expedient, and if we had an internal use only, then they
11 can give the user what he needs.

12 Those of us -- I know buyers have to come
13 up who are a little nervous about this kind of an approach
14 and would say, if it is general purpose, it's got to be
15 general purpose, and a financial statement under a
16 professional approach is still a general purpose financial
17 statement.

18 The second cut at it, which goes to the
19 service bureau question is very definitely a problem,
20 realizing that, of course, we do have the Ethics interpreta-
21 tion on incompatible occupations and so forth, an ethical
22 question is as to whether you could run a service bureau in
23 a separate organization parallel with your accounting
24 practice.

25 I'll set that aside for a moment as being what

1 we call an ethical question.

2 If you accept clients' input and don't read
3 the financial statements, that is one of the, let me say, the
4 stop gaps in a compilation, you've got to take a look at
5 these things, and if you see something that doesn't look
6 right, you've got to pursue it, you don't just take that
7 garbage and throw it out in a compilation. There's some
8 people that think you do, but that's not what the SAS
9 Standard says.

10 That's what you would be doing if you went
11 to the service bureau approach, so it would not be a
12 compilation.

13 We really in discussing this are going on the
14 basis, and the term you have used, Phil, is probably a good
15 one, that this non-service would be in addition to the
16 services of compilation and review.

17 Well, again there's a lot of arched eyebrows
18 both ways. There is a very practical problem, particularly
19 in small communities, and I've gone around the country and
20 talked to some of them, had people put it to me in this
21 way, exactly; we've got the only computer within 50 miles of
22 here. There are people who need this kind of service.
23 There is no service bureau. Why can't we do it?

24 That's a tough one sometimes to handle, you
25 know, if we are to be servicing the public, but I guess the

1 path that we've got to walk down and come up with a decision
2 on is can we let that kind of a problem, and again without
3 my biases coming up, deprofessionalize some of the services
4 that we expect to offer.

5 No answer yet from the Committee. We will
6 still be working on it, and hopefully we'll escape with
7 our skin, whichever way we come out,

8 MR. CHENOK: Thanks, Bob.

9 Jim Leisenring, let me go over to the Auditing
10 Standards Board. There is a lot of concern within the
11 profession about so-called standards overload. We have just
12 seen a committee appointed to deal with the Accounting
13 Standards overload, and it was reported at this Council,
14 they have already had their first meeting,

15 A lot of practitioners are also concerned
16 with the Auditing Standards Board, that the Auditing
17 Standards Board is responsible for perhaps more than its
18 fair share of standards overload, and that you fellows are
19 not giving consideration to the concerns of the smaller
20 practice units who feel that maybe we are having too many
21 SAS's come out.

22 What are you doing to consider the needs and
23 concerns of those practitioners?

24 MR. LEISINGRING: Well, Phil, let's recognize
25 two things, and I'll answer your real question about the

1 concerns and needs of small practitioners, but I want to
2 make a comment on standards overload before I do, and then
3 I'll come back to that in a minute.

4 That's that clearly, if there is standards
5 overload, it applies equally to a large practitioner, you
6 know, and I'm not sure the size of the firm has anything
7 to do with the problems of coping with the literature, so,
8 you know, we are concerned with that proliferation of
9 standards, but I think you have to recognize that in many
10 circumstances those standards which on the first basis
11 would look like they were either unnecessary or in fact
12 just too many of them, and people here probably don't
13 realize within the next week they're going to get SAS 35,
14 6, 7 and 8 in the mail, so that's a bad time to ask this
15 question, but each of those pronouncements are --

16 MR. CHENOK: I didn't think so.

17 MR. LEISENRING: They're just really a
18 reaction to a dynamic environment, you know.

19 A certain one of them, for example, is purely
20 a modification of old SAS 24 on interim reviews to react
21 to the SEC moving interim information outside of financial
22 statements, so it became necessary to issue a pronouncement,
23 but I don't know as it's fair to necessarily put some of
24 those pronouncements into an overload characterization.

25 As far as a small practitioner or the smaller

1 firms' input to the Board's activities, I think the
2 structure itself of the Board lends itself to having their
3 viewpoints fairly well considered. I think most people
4 don't realize that the 15 people on the Auditing Standards
5 Board, at least six of them come from either very small
6 firms or at least at best regional or large local firms.
7 We only have five of The Big Eight at any one point in
8 time on that Committee, which is not necessarily a position
9 I agree with, but it is, you know, the structure, and we
10 have one academic by tradition. The rest come from the
11 rest of the profession which happens to be a lot of them,
12 three or four of them come from some small firms, and the
13 rest of the Committee, from smaller national and local
14 and regional firms.

15 So we think our structure itself lends itself
16 very well to considering all people's viewpoints.

17 I think the only other thing that we really
18 do overtly to consider the small firms, since the
19 formation of the Technical Issues Committee to the PCPCS,
20 they have a group that studies the auditing pronouncements,
21 and I have met with them on a periodic basis, probably about
22 once a quarter, met with that group and gone through all of
23 our projects to make sure that I was understanding what
24 their viewpoints were, what their concerns might be, as well
25 as to educate them a little bit as to what we thought the

1 problems were, as to why we put certain items on our Agenda.

2 MR. KRASNOFF: Jim, the composition of our
3 Board, and you say only five members of The Big Eight, I
4 don't necessarily agree with it, but that's the way it is,
5 it has to be that way, and ACSEC is really the same way.
6 We only have five of the fifteen seats held by Big Eight
7 firms. There are either two or three, two seats held by
8 other national firms other than The Big Eight, we have one
9 academic, and we have six or seven -- six actually that
10 come from either the local firms or regional firms.

11 MR. LEISENRING: The Standard overload
12 problem, though, really is a difficult one to come to grips
13 with, I think for us, and I'm sure for any one issuing
14 pronouncements, because at conferences such as this one
15 or any other Panel or speech that I participated in in the
16 last couple or three years, while you certainly get people
17 concerned about the proliferation of pronouncements, you
18 also probably get even more of a cry for, we need more
19 guidance in how to implement things, and we need help, so
20 it's very difficult for us to meet our charge which does
21 have language in it that says, you know, all possible
22 guidance for implementation.

23 Looks like we have a question. Sandy.

24 MR. BURTON: Jim, as one who reads the
25 minutes of the Auditing Standards Advisory Council, I have a

1 perception that this part of your structure is costing a
2 fair amount of resources and producing remarkably little
3 benefit, and I would be interested in your reaction as to
4 what they do that isn't apparent in the minutes, and secondly,
5 what you see their role as being.

6 MR. CHENOK: For those of you who may not
7 have been able to hear Sandy, the question is, what role
8 does the Auditing Standards Advisory Council serve, does
9 Jim think they're really doing an effective job.

10 MR. LEISENRING: That's a slightly different
11 question. I'll take Sandy's question instead of yours.

12 MR. CHENOK: Sandy, you'll forgive my
13 editorial license.

14 MR. LEISENRING: Well, in the first place,
15 accept the fact that the restructuring of the Auditing
16 Standards Board from the Auditing Standards Executive
17 Committee changed the composition, changed the size,
18 established the Advisory Council, did some things, Sandy,
19 that I think were all designed to attempt to make the Board
20 more responsive to a broader public interest than perhaps
21 just auditors practicing within public accounting firms.

22 I think that the Board has effectively, or
23 the Advisory Council has effectively done that. They're
24 reasonably broad based. They have considered the issues
25 that are not technical ones, really, but ones that have the

1 potential for, if you will, political overtones that affect
2 more than just auditors and practitioners, and I think that
3 they have been an effective conscience for us.

4 I doubt that on a couple of instances we
5 would have gone the direction that we ended up going absent
6 the Advisory Council.

7 An example of that is the ill-fated project
8 on the Auditor Standard Report, but at the same time I think
9 they were right, and they did push us in a direction that
10 we probably would have otherwise not gone.

11 I think they're forcing us to be -- forcing
12 may not be the right word, but at least I'm very conscious
13 that they're over there, they're annually writing a report
14 to the Board of Directors to see if we are responding to
15 the needs of small firms, for example, and to see if we are
16 responding to our charge which is pretty broad.

17 So it's tough for me to make a cost-benefit
18 assessment. In terms of my time personally, which is meeting
19 with them once a quarter, I think it's effective, yes.

20 I think you'd have to ask the Advisory
21 Council whether they believe they deal with issues and all
22 that warrant their time. From my perspective, yes, I think
23 they were formed for a purpose, and I think they have lived
24 up to it.

25 MR. CHENOK: Jim, let me ask a follow-up

1 question, because you mentioned the project on the Auditor's
2 Standard Report. That used a lot of the resources of the
3 Board, and the exposure draft was issued, and ultimately
4 the Board decided that the existing report read pretty well
5 after all.

6 Can you give us some idea of why the Board
7 finally reached the conclusion not to do anything with the
8 report, and can you tell us whether there are any plans
9 afoot to communicate the Board's conclusion and the basis
10 for that conclusion to both the Profession and the
11 investing public at large?

12 MR. LEISENRING: I'll answer your question.
13 You messed me up, Phil, if you would have asked it exactly
14 like the script says you would, but what I was getting
15 at --

16 MR. CHENOK: Got to be flexible.

17 MR. LEISENRING: What I was going to do is
18 say the only reason it was on the Agenda when I became
19 Chairman is you screwed up and let it be on there, so it's
20 your fault, but I don't get to say that, so now I'll have
21 to answer the question.

22 You know, it's -- the Auditor Standard
23 Report was a very frustrating project for us, because I
24 believe there weren't any single issues, and we really
25 identified seven issues in that report. Different people

1 were in agreement that improvements could be made, but
2 recognizing that we never intended ever from the beginning
3 of that project to change any standards or to change any
4 responsibility of an auditor, only to better communicate
5 what we thought the existing scope of an audit was and
6 what we thought the existing assurance level in an auditor's
7 report meant, we were just trying to better communicate
8 that.

9 We just ended up being totally frustrated
10 by our inability to improve the document, improve over what
11 we now have, and I think that we have to be very candid
12 and say that we made our best efforts.

13 We did expend a significant amount of time,
14 over three years, in an attempt to improve the communication,
15 but the Commission on Auditor's responsibility had
16 identified that in fact people did not understand the
17 Auditor's report.

18 The Public Hearing that we had on the issue
19 clearly demonstrated the people did not understand the
20 Auditor's report.

21 All of that pushed us in an attempt to make
22 a change that ultimately we were unable to agree on was an
23 improvement. It's that clear.

24 We didn't believe that we enhanced the
25 communication of the auditor's role by any of the changes we

1 could agree on.

2 Public perception was clear, that they felt
3 that we were lessening our Standards, giving less assurance,
4 and that's not the message we wanted to give.

5 So what I think we have gotten back on is
6 admitting that we spent that time, we did our best shot
7 and couldn't approve it, and now we've got to work on the
8 other avenue which is admitting the lack of understanding
9 of the report as it exists today, and the Staff and the
10 Board's working on various projects, pamphlets on
11 very -- very similar to what the CACA did on educating the
12 public.

13 We have had some communication with Robert
14 Morris and Associates and other groups to attempt to find a
15 medium that will enhance people's understanding of what the
16 report means as it exists today.

17 MR. CHENOK: Jim, one more question related
18 to the report. During the time that I served as Chairman of
19 the Board, we looked at the question of a subject-to
20 opinion and the possibility of eliminating the word,
21 subject-to, and came to the conclusion that that shouldn't
22 be done. I know that that was not a part of what you
23 looked at within the context of the revision of the
24 Auditor's Report, but I understand that you're revisiting
25 that issue for the third time.

1 What's happened to cause you to believe that
2 the environment would be any better to eliminate the
3 subject-to opinion or something else associated with that
4 project?

5 MR. LEISENRING: Well, the answer is yes,
6 there have been things happening in the environment, and
7 yes, there's something else associated with the project.

8 You're right that we did not consider anything
9 but the Standard Auditor's Report. No form of a modification
10 of that report was ever considered on the project that we
11 terminated.

12 The subject-to opinion was considered four
13 years ago, it was rejected in terms of proposal and exposure
14 draft that would have not, or would have changed the
15 literature from what it still says, and which allow the
16 subject-to opinion on uncertainties.

17 At the present time we are looking at that.
18 The environmental factor in part that caused us to do that
19 is the Canadians, of course, have reached a conclusion that
20 you do not modify an auditor's report for uncertainties.

21 That aspect of it, the fact that the FASB has
22 studied the issue of the appropriate disclosures for
23 uncertainties and contingencies since the ASB last
24 considered the topic, more importantly I think that it's
25 a little broader than just should we or should we not eliminate

1 subject-to, it's also a consideration, or rather, subject-to
2 opinions being abused in the practice.

3 I think that is also a part of their charge.

4 MR. CHENOK: What do you mean by that?

5 MR. LEISENRING: Where in fact it should be
6 except for opinions instead of subject-to. It's not really
7 an uncertainty or contingency, it's somewhat of a negotiated
8 skirting of the issue and calling it subject-to.

9 An example that certain people at the SEC
10 would identify as being a possibility in this area is
11 accounts receivable, that in fact they weren't collectable,
12 you knew they weren't collectable, but you and the client
13 can agree that in fact that it's a GAAP failure to allow
14 them, so you write a subject-to opinion and you have
15 conveyed your message, but it's an inappropriate application
16 of subject-to, but it's a broader charge to the task force.

17 They also have been asked to consider the
18 fact that a logical argument for an auditor not reporting
19 on uncertainties in his report, it's an aspect of GAAP and
20 should be a matter of financial statement disclosure.

21 They're also being asked if in fact
22 contingency isn't exactly the same issue, and that can you
23 not -- since contingency is exactly the same issue, are
24 they separable, or if you're going to reach a conclusion
25 on going on subject-to opinions, shouldn't you reach a

1 similar one on consistency.

2 That is an issue that we talked about in the
3 Standard Auditor's Report, because of course it's consistently
4 in the Standard Auditor's Report, and so I have a little
5 broader charge, and it's too early for me to predict what
6 direction it may take.

7 MR. CHENOK: I wish you a lot of luck.

8 MR. LEISENRING: I only have 18 months as
9 Chairman, so I think I'm probably going to be set.

10 MR. CHENOK: Jim, the Derieux Committee
11 addressed one of the SAS's as a potential practice problem
12 that affects smaller firms, and that is the requirement
13 that we have relative to reporting on the part of the work,
14 where part of the examination is made by another auditor,
15 Section 543. Can you tell us how that reexamination is
16 moving and what your plans are?

17 MR. LEISENRING: Briefly, Phil, in the first
18 place I think no one disagrees with the fact that displacement
19 is an issue here, that we don't want standards in place
20 that in fact cause that. You know, that's an inappropriate
21 application or use of standards, if that's what you call
22 it, even misuse, but I guess what our problem is in dealing
23 with it, is we don't believe the solution might be quite as
24 simple as some people have led us to believe. They think
25 the Derieux Committee was telling us, and that is to just

1 eliminate the expression of reliance.

2 We considered that four or five years ago
3 on the Board. At that point in time by in large the
4 practitioner group, the small firm group, the association
5 and all have recently protested any elimination of the
6 expression of reliance, because they felt that absent an
7 expression of reliance it would enhance displacement.

8 Now, that seems to be a slightly different
9 message than we now get to be with the thinking of the
10 Derieux group, so that our frustration with the topic is
11 not that we don't want to make the change that allows the
12 Standards to no longer be abusive, because we don't want
13 that, it's just what should we change to, and I think to
14 try and get a better handle on what is the right answer
15 and to make sure all parties get a chance to discuss the
16 issue, we are going to have not a public hearing, but a
17 public meeting in New York on the 18th of June, any one
18 may be there, there will be an issues paper prepared by
19 the Institute Staff that will be available here very
20 shortly, but it's a public meeting, not a hearing, and that
21 people do not have to prepare a position, they do not have
22 to -- they do not have to write to us in advance, get an
23 appointment to talk, but we have in fact invited groups to
24 be there, representatives of the Derieux Committee will be
25 there, PCPCS will be invited, the SECPCS has been invited,

1 the Peer Review people will be invited, but they weren't
2 originally, but there's been some changes in the Peer Review
3 Manual that impacts Section 543, so we think it would be
4 appropriate to invite them to participate.

5 The Technical Issues Committee people will be
6 there, people from the Auditing Standards Board will be
7 there, and so we really are only trying to explore the
8 issue at the present time.

9 A MEMBER: Is there some possibility of
10 tying in the study with Peer Review, and that if a firm has
11 had an unqualified opinion as to appropriateness of its
12 Auditing Standards, that perhaps the amount of comfort that
13 the parent auditor or someone can have and not have to go
14 down to reaudit work of the auditor of the subsidiary?

15 MR. CHENOK: Let me try to rephrase the
16 question or try to capture the essence, and that is if a
17 firm has had a Peer Review --

18 MR. LEISENRING: The question didn't bother
19 me that much, just happened to fall off.

20 MR. CHENOK: If a firm has had a Peer Review,
21 is there any way to take a position that some different
22 manner of reporting might be applied than if a firm hasn't
23 had a Peer Review, because then we in the profession would
24 have some degree of assurance that that firm's got quality
25 control policies and procedures that are in place.

1 MR. LEISENRING: I don't think there's any
2 doubt that the Board's inclination would be to, in some way,
3 recognize a firm that has undergone Peer Review, has
4 evidenced certain characteristics that are not necessarily
5 present with a firm that has not undergone Peer Review,
6 but there are two cuts in 543.

7 One of them is to make a decision whether
8 you're going to express reliance or you're not going to
9 express reliance, and then the procedures that you do
10 after you have reached that decision.

11 The Peer Review Process may impact the
12 latter, but does not necessarily in some people's mind
13 impact the former, which is the decision to express
14 reliance or not, because in many people's minds, again
15 the philosophy that the principal auditor is responsible
16 in some people's minds, and if you don't allow them to
17 express reliance, as long as their in-house counsel are
18 advising them, if you're not going to express reliance,
19 you better go do the work, and no matter what we put in
20 the Standard, it won't make any difference, and then the
21 inability to express reliance will force displacement,
22 because inevitably firms will perceive their responsibility
23 as one of having to go do the work, irrespective of whether
24 you belong to the practice section and have a peer review,
25 no matter what the characteristics of the firm are.

1 So that's the kind of debate on whether
2 reliance is the right route to go in thwarting displacement,
3 or whether perhaps if we eliminate it, it will enhance
4 displacement.

5 We really are trying to get a handle on that
6 question.

7 The Peer Review process has been considered.
8 We tried sort of a massaging of 543, took the language as
9 it existed, put a little bit more guidance in it.

10 I think all we ended up saying is this is
11 just cosmetic. We haven't substantially changed 543 at
12 all. We are not being responsive to any real change.

13 The Board concluded that, and that's why we
14 made the move towards the public meeting. We are just not
15 ready yet to believe we understand what everyone believes
16 is the issue here, and we want to know that before we reach
17 any conclusion.

18 MR. CHENOK: Jim, while -- just to follow-up
19 on Peer Review, we had a report and indication yesterday of
20 a new kind of auditing service that I hadn't heard of before
21 called the Roluids one, that's one where the auditor
22 determines that at some point and for some reason, that the
23 examination he performed really wasn't in conformity with
24 Generally Accepted Auditing Standards, and it came as a
25 surprise that apparently our existing literature doesn't cover

1 that kind of a situation, because it was mentioned that in
2 the report of the Public Oversight Board, that a communication
3 had been made to the Auditing Standards Board to address that
4 question.

5 I guess my question, Jim, is why doesn't our
6 existing subsequent discovery SAS cover the situation, and
7 if it doesn't cover the situation, what do you propose to
8 do to provide for the profession guidance on actions to take
9 if they find this kind of a situation?

10 MR. LEISENRING: Well, it is correct that the
11 existing Section 561 does not apply to that set of
12 circumstances.

13 561 applies when it is subsequently
14 discovered that in fact the financial statements that have
15 been opined as having been in conformity with Generally
16 Accepted Accounting Principles, are not in conformity with
17 Generally Accepted Accounting Principles, and that is a
18 distinctly different issue than what we have when you
19 subsequently discover that Generally Accepted Auditing
20 Standards have not been applied. You have no knowledge at
21 that point in time or any more knowledge than you did when
22 you filed the audit in the first place, as to whether the
23 financial statements are or are not in accordance with GAAP.

24 The issue and the circumstances raised in the
25 Peer Review process is that you were not entitled to an

1 opinion that in fact you rendered at some previous date.

2 There are lots of things that there -- there
3 are lots of things that we have to consider before we decide
4 how or what guidance is appropriate in this circumstance.

5 I think some people have told us already
6 that, hell, 561 ought to apply the minute you understand
7 that you really didn't do an audit and aren't entitled to
8 your opinion, withdraw your opinion.

9 I think that that is a simple solution that
10 only damages the poor client and not the auditor. The
11 client's financial statements are yet to have been determined
12 to have any problem with them at all.

13 Perhaps the reliance that has been placed
14 on them is appropriate, and they're the ones that suffer
15 if that becomes your quick solution.

16 We have reacted against that as being
17 something we can do without a lot more thought than we have
18 had time to apply to the issue.

19 So there is a task force looking at it. I
20 don't think it makes any difference whether the discovery
21 comes through Peer Review Inspection Programs or whatever.

22 We have had them come both ways, firm's own
23 inspection program has identified these circumstances, and
24 so has the Peer Review.

25 It's true our literature does not explicitly

1 give anyone any guidance as to what they ought to do. I
2 think probably some people believe that's what our literature
3 ought to continue to say, because the circumstances may be
4 so unique that the firm ought to work out what's appropriate
5 on its own, but we will address it. We have a couple of
6 instances or circumstances that I am aware of where it's
7 very stale, it's four years old and that the opinion
8 doesn't mean anything. In one of these circumstances the
9 entity has ceased to exist.

10 You know, you've got to look at the utility
11 of your guidance too, I think, and we are going to have
12 to not generalize and be very quick on this, or we are
13 going to make mistakes, so it will not be an easy problem,
14 but one we are going to address.

15 MR. LAUVER: Ray Lauver. Jim, you referred
16 to the continued reliance upon, that situation. Isn't it
17 important to distinguish between the continued reliance
18 on financial statements and the continued reliance on the
19 auditor's report?

20 MR. CHENOK: Did everybody hear the question?

21 MR. LEISENRING: The question was that you
22 have to distinguish between -- that there are really two
23 forms of reliance. The first person that has this financial
24 statement out there is relying on the financial statement.
25 He's also relying on the fact that an auditor did in fact

1 audit it as he says that he did in his report, and that's
2 right, that's the point I meant to make.

3 There are two forms of reliance here, and
4 the only one that at that point in time when the discovery
5 is made, no, it is inappropriate, is on the Auditor, not
6 the financial statement.

7 So we want to make sure we make that
8 distinction, absolutely, the observation that we have made.

9 MR. MILLER: Phil, can I just add to what
10 Jim said. No, we are not addressing it, and we will be
11 watching very carefully what the Auditing Standards Board
12 is doing.

13 A similar circumstance could, of course,
14 exist with respect to a review, that in a Peer Review
15 process perhaps the review is not conducted as completely
16 as it should.

17 We don't have anybody addressing it. We'll
18 let the Auditing Standards Board spend the money, and then
19 we'll perhaps take a look and see if we like what they
20 have done, but I would point out that with its limited
21 assurance, certainly you might have similar problems with
22 respect to a review.

23 MR. CHENOK: Thank you.

24 MR. LEISENRING: We don't study these issues
25 at the same level, although we are subjected to Coach Class

1 air travel. It will take us longer now that we can't get
2 people to travel. You knew I'd get my shot at something
3 on you.

4 MR. CHENOK: With friends like Jim -- Chuck,
5 let's move over to MAS.

6 You'll be happy to learn that yesterday the
7 Council did approve extending to MAS Division Rule 201
8 authority in a manner similar to the authority they have
9 under Rule 204. I know in anticipation of that action the
10 MAS Executive Committee issued an exposure draft of a
11 statement that would be enforceable under the Code.

12 Can you give us some idea, Chuck, as to the
13 major differences between that new practice standard that's
14 in the recent exposure draft and the old statements that
15 we had the issues by the MAS Committee back in 1974?

16 MR. KAISER: Yes, sir, I can.

17 The first point, you even brought out the
18 fact that it would be enforceable, the '74 Standards were
19 guidelines and not enforceable. There seems to be some
20 confusion on the exposure draft of the Standards really
21 relating to 201 in terms of MAS engagements, that is
22 professional competence to professional care, supervision,
23 sufficient relevant data and forecasts, there's only four
24 of them, and I term these definitions, more or less definitive
25 explanations of the role of the practitioner, the understanding

1 with the client, client benefit and communication of
2 result are four new ones that are not under 201, they
3 were mentioned again in '74.

4 The major difference between the '74 guidelines
5 and the exposure draft standards are that the old standards
6 or guidelines covered only formal structure engagements
7 involving studies and projects, while the new proposed
8 standards would govern consultations.

9 MR. RABY: Can I interrupt? I've had some
10 feedback from tax people. We haven't reached a decision
11 on our comments on this change in language, but we have
12 extended really the scope of this statement to cover about
13 50 percent of the consulting work that tax people do which
14 is a kind of an amalgamate of tax consulting and business
15 consulting. Is that your intent?

16 MR. KAISER: I don't know if that was our
17 intent. Again I am sitting here for Henry Gungers and
18 trying to get into the intent of the Committee.

19 The intent of the Committee was to provide
20 a resource to practitioners, whether they be strictly
21 denominated as MAS practitioners or tax practitioners or
22 auditors, who find themselves many times giving advice as
23 part of the auditing engagement. I don't think we went
24 out and tried to embrace more than what we had, and again
25 coming to the question of proliferation, sometimes we as

1 members of Committees feel that what we do is -- or how we
2 are evaluated is by what we publish. Maybe we should be
3 evaluated by what we don't publish in a slightly different
4 approach to avoid this.

5 There's really nothing new if you really go
6 back except a greater embracing of the informal thoughts,
7 and I don't see where that inhibits anything. I think it
8 helps clarify that.

9 MR. CHENOK: Let me see if I understand the
10 informal advice application. If an audit engagement partner
11 is having a conference with his client and the client
12 asks an operating question, what does he do about trying
13 to instantly apply these MAS Standards before he responds
14 to the question? I mean as a practical matter how will it
15 work if you're talking about an informal advice and
16 consultation?

17 MR. KAISER: Well, if he's not professionally
18 competent, for example, to respond to a general standard,
19 he shouldn't respond.

20 If it's one of the four definitions that I
21 covered, if it's not going to provide a client benefit, if
22 he's not going to be able to communicate his responses
23 clearly, he shouldn't respond. He's only leaving himself
24 open -- a practitioner is only leaving himself open to
25 problems in the future unless he can live within these broad,

1 call them standard, let's call them guidelines.

2 MR. RABY: Enforceable guidelines,
3 sanctionable guidelines.

4 MR. KAISER: Who's going to do the
5 sanctioning?

6 MR. RABY: That's the next question.

7 MR. CHENOK: That would be our -- I presume
8 up to the Ethics Division, or would be an enforceable
9 standard under our Code.

10 Well, you said these are basically defini-
11 tional and sort of represent a broad outline, Chuck, of the
12 Standards that the MAS Committee thinks ought to apply for
13 MAS engagements. Do you have any plans for future
14 statements or what are your plans going forward?

15 MR. KAISER: Our plans are to proceed
16 slowly and not participate in the Standards overload.
17 We may get into some standards on, to use an auditor's
18 term, documentation, what's required, but I think more we
19 are going forward to publication of resources than a
20 plethora of standards.

21 MR. CHENOK: Would you like to restate that?

22 MR. KAISER: Not really.

23 MR. RABY: Does that mean you're talking
24 more informal standards?

25 MR. CHENOK: Let me ask you, Bill Raby, a

1 question. We also have a number of statements in the
2 tax area, responsibilities of tax advisors and the like,
3 the old MAS Standards, they're guidelines, are not enforceable.
4 Do you perceive the possibility of the Tax Division
5 deciding at some point to consider issuing enforceable
6 standards?

7 MR. RABY: I don't think so.

8 MR. KAISER: Only those that would apply to
9 MAS.

10 MR. RABY: Only those that would apply solely
11 to MAS transactions.

12 In a sense we get caught in a Catch 22. This
13 whole area of tax practice is one where, to the extent that
14 you don't have enforceable standards and you have the
15 IRS and the tax court, you're going to be held to those
16 standards any way to the extent that the AICPA would set up
17 standards that were more rigid than those standards, you
18 would probably find them almost entirely unenforceable by
19 the AICPA.

20 Why? Essentially the tax data that is
21 involved and the relationship between the taxpayer and the
22 IRS is so confidential under the law that IRS can not be
23 cooperative in bringing to light those situations where it
24 might find the practitioner isn't living up to the Standards.

25 About the only time that it would come to

1 light would be when they had moved into disciplinary
2 action and somebody appealed from the Director of Practice's
3 determination into the Court, and himself made it public,
4 but otherwise if we had a standard relating to tax returns,
5 for example, and the IRS was going to get involved in a
6 situation and discovered there was a dereliction, nobody in
7 the IRS would be able to disclose it. It would be a felony
8 for them to reveal the information. Therefore we get kind
9 of caught in a situation where we don't see the utility for
10 us, number one, number two, we are not like MAS, with all
11 due respect. If you don't create standards, in the sense,
12 there is no authoritative body of standards dealing with
13 consulting practice, and similarly with accounting and
14 auditing, there is no authoritative body of standards if we
15 don't create it.

16 We have a huge body of standards out there.
17 Our problem is one already of overload. We can't even cope
18 with what those standards are, and for us to add to that
19 confusion, I think we find something we don't want to do.

20 We started the program, Phil, as you may or
21 may not recall, I think it was back around '62, some of the
22 old-timers here may recall the exact year, and we had at
23 that time a kind of an unrealistic feeling that somehow we
24 could work the adversarial nature of the tax practice out,
25 and that if we went ahead and took some first steps we'd find

1 the IRS reciprocating and taking some steps.

2 If you'll recall, why, there were some
3 noble statements made back in those days.

4 We discovered in the intervening 19 years
5 that it doesn't work that way, and what's happened in
6 recent years is that the statements have really become
7 entirely different.

8 If you will go back, for instance, over ten
9 and nine and eight, ten being the one that said it is all
10 right for a CPA to take a position on a revenue ruling to
11 a regulation as long as he has reasonable support for his
12 position and he does not have to disclose it, he might even
13 take a position contrary to the Internal Revenue Code, but
14 he would have to disclose that, that statement was issued,
15 in my opinion, because we needed that to defend the tax
16 practitioner, and we were engaged in an environment where
17 the IRS would love to make us unpaid agents of theirs.
18 They would love to have us in a position where we were
19 really working for them, and we need some degree of
20 professional interpretation that says that in fact the
21 things that we considered good practice are good practice.

22 We need to have that in an authoritative
23 way so that we could use it to defend ourselves.

24 Secondly, although you may not realize this,
25 because the auditors get all the big dollar judgments, and

1 you can have them, probably the tax practice is the most
2 litigated area of our professional practice. There are
3 more little picky claims filed on professional liability
4 insurance in connection with tax matters by far, I think,
5 than in the area of auditing.

6 Fortunately there aren't any 30 million
7 dollar claims that are being filed there.

8 The ability of a firm or a practitioner to
9 defend what he has done as being good practice requires
10 that there be a body of literature which sets that forth
11 and interprets these rules, and to some extent that's what
12 we are doing with the statements now, but that's an entirely
13 different type of thing than being concerned with using
14 them as a club to improve the level of practice in the
15 profession. We think by in large CPA's are conducting
16 tax practice at a pretty good level.

17 MR. CHENOK: As a result of the Board of
18 Directors Meeting it was reported here before the Council
19 that the Board adopted a policy statement trying to make it
20 clear that your Executive Committee has got the authority
21 to interpret the General Standards of the profession, even
22 though you haven't sought the power to set enforceable
23 standards. That might have come as a surprise and might have
24 raised some questions in the minds of the members of the
25 Council.

1 Can you explain why the Executive Committee
2 felt that that step was necessary at this point?

3 MR. RABY: Our problem is, we deal with a lot
4 of publics out there, we deal with the American Bar
5 Association Tax Section, we deal with the Tax Executives
6 Institute, and more importantly we deal with the Treasury
7 Department, we deal with the Director of Practices Office,
8 we deal with the people in IRS.

9 If you read 201 and 204, especially if you
10 read them kind of casually, you get the impression that
11 there are going to be certain organizations within the
12 Institute that are going to have the ability to interpret
13 and by definition almost, or by exclusion, if you aren't
14 designated you don't have that ability, so that some of
15 the contacts that we have had, for example, the hearings
16 on the Revision of Circular 230 which took place last fall,
17 we have had the question raised as to whether, since we
18 have not been designated by Council to interpret 201
19 specifically, we can even speak to it, and that came up in
20 the context of the discussion which we were in fact speaking
21 to it, we were talking about the use of projections in
22 connection with tax shelter offerings and the way in which
23 that would be interpreted by us, and the type of language
24 that Circular 230 might or might not have, and how we would
25 see that, and the question got raised, well, you guys don't

1 even have that authority, the Institute has refused to grant
2 you the authority, and they're actually wrong on that,
3 because it was 204 that that came up on, and why should you
4 purport to speak for that when you really don't have any
5 basis? Don't you need some sort of a more official act
6 before you come before us?

7 Our answer was no, but the answer we felt
8 would be a little bit more authoritative if we had some
9 support for it.

10 MR. CHENOK: So that was the reason?

11 MR. RABY: That was the real trigger that
12 got me hot on the subject.

13 MR. CHENOK: Bill, let me ask you one more
14 question, and Jim, I hope you'll jump into this as well.

15 Access to accounting work papers, particularly
16 as relates to the evaluation of the adequacy of the Tax
17 Code, Bill, can you bring us up-to-date, give us a little
18 background on the nature of the controversy, and bring us
19 up-to-date on where we are right now?

20 MR. RABY: Sure. The problem is the same
21 old problem which kind of got highlighted by a case up in
22 Denver involving Johns-Manville and Cooper-Lybrand which the
23 profession won, incidentally, in a District Court up there,
24 and then the Tenth Circuit Court of Appeals said no, IRS,
25 you can not have access to the Cooper-Lybrand tax provision

1 working papers. Why? They're not relevant, and this
2 seemed to bring the issue into sort of focus, and IRS got
3 very concerned and started issuing statements like, we don't
4 think that's the law, and we don't want to follow it, and
5 we got more and more agent concern.

6 Last summer, I think it was about June, the
7 Service issued a supplement to its Agents' Manual, which
8 to a great extent reiterated what they had been saying before,
9 but which again focused attention on it, and again the
10 level of confrontation seemed to rise.

11 The Court cases were springing up, and we
12 met with the Service, we met with SEC, we met with other
13 groups, but the problem is a dual problem.

14 From the standpoint of the tax practitioner,
15 there is a problem that perhaps may not be fully obvious
16 when you just look at it as auditing work papers. We are
17 concerned that we not be placed in a position, vis-a-vis
18 our competition, for example, primarily lawyers, in which
19 they can say, don't use the CPA for tax consulting, don't
20 use the CPA for anything that you don't absolutely have to
21 use them for, because anything you tell them, anything
22 that goes into his records, any memos that he may write
23 for internal or external use, those are an open book, it's
24 just like turning them over to the IRS, and with all due
25 respect, very few clients are going to be really eager to

1 carbon copy the IRS on every single thing.

2 Secondly, of course, you have the question of
3 the impact on the audit itself too, which Jim can talk a
4 little bit better. When you start getting people clamming
5 up, when you have a situation where your client says,
6 we intend to create some internal working papers explaining
7 the tax provision, we will be happy to show them to you, we
8 don't intend for you to take any notes on them, we certainly
9 don't intend for you to copy them, and we want your under-
10 taking not to create any duplicate working papers like this,
11 and we intend to destroy our own internal papers about a
12 year from now after we have finished our own reviews, where
13 does that leave you in an audit environment?

14 You're drying up the communication process
15 with a client, and unfortunately the tax provision review
16 is not just a thing which takes place in a box over here
17 and it's a little one percent piece of the audit. In a sense
18 it's a part and parcel of almost everything that is happening
19 in the audit. Transactions don't have just a tax aspect,
20 they are transactions.

21 The fact -- these things are just as relevant
22 to the auditor in forming his opinion as they are later on
23 to the tax people in forming their opinions.

24 So what we saw was kind of a real double
25 claw that we were going to get clawed in terms of the tax

1 practitioners, and that the auditors were really going to
2 find themselves unable to do an adequate job, and at least
3 in our firm, there was really the anticipation if this
4 continued, certainly by the second year you got into it, you
5 would be getting into this subject-to type of opinion
6 problem.

7 What has happened? The Service is going to
8 be issuing, or may have already issued, it's supposed to
9 be coming out momentarily, and Roscoe Egger has already
10 talked about it, revised audit manual statements. Essentially
11 two very good things are going to happen, which I think will
12 solve 98 percent of the problem.

13 Bear in mind when you hear this and read it
14 later on, there's a little caveat. None of this applies to
15 a fraud investigation, and many of the major problems that
16 you have read about have involved fraud investigations and
17 would not have been affected by this, but this will take
18 care of routine audits.

19 Number one, if the Agent wants to look at the
20 Auditor's working papers, which is something that is
21 explained to him that he should only do after he's done a
22 whole lot of other things and toward the end of the job, he
23 is going to have to get review okay at a very high level.
24 He can not unilaterally decide this, and the way the Service
25 works as a practical matter is going to inhibit probably most

1 agents from doing very much.

2 Secondly, they have clarified what it is
3 he is looking for. It's not much help because it was
4 relatively clear before, and if you have seen the subpoenas
5 that they have issued, their idea of what they were telling
6 the Revenue Agents, they're saying to the Agents, look at
7 this, and the subpoena asks for everything including the
8 kitchen sink. They say that they will be a little bit
9 better because of this higher level of review in getting
10 the subpoenas down so that they are dealing only with the
11 factual. They're trying to make clear they are not
12 interested in our subjective comments or reactions, our
13 opinions, they're interested only in the facts, whatever
14 those facts may be.

15 I really think it will help in the factual
16 area, solve the problem most of the time, it will solve the
17 public relations problem.

18 Will it take away from the lawyers the
19 argument that they had been making, don't use the CPA? No.
20 Once something like this happens, it's a little bit like
21 losing your virginity. The question never goes away. You
22 can't get it back.

23 We are going to have that problem for the
24 future, and it's just one that we will have to wrestle with
25 and prove as we have in the marketplace over the years we can

1 do a better job and continue to do a better job.

2 MR. CHENOK: Jim, do you want to comment at
3 all?

4 MR. LEISENRING: Just briefly, Phil, you
5 know, we issued the interpretation to try and combat the
6 unwillingness to put the things in documents, any documenta-
7 tion together. I don't know that the practice problems
8 have gotten any better. We have had a lot of them through
9 this last busy season, there isn't any doubt about that.
10 This certainly is steps in the right direction, but I think
11 we still have the attitude problem of a great number of
12 clients, that this threat is still there, that they're
13 going to have access to accountants' work papers, and I am
14 not sure that the limitations for the Audit have been -- that
15 the problems have been solved at all by this.

16 We just don't really know now, but I'm
17 skeptical that we have solved the problem.

18 MR. RABY: Incidentally, we think that we
19 have fairly good support within the American Bar Association
20 Tax Section for some legislative solution to this, and at
21 least at one point there was a draft bill which Jim Howard
22 told me this morning he now understands may never get
23 introduced, which would have been involved in this.

24 I am hopeful that maybe that is the way of
25 doing it. Again it will not fully solve the problem, it will

1 make it much harder for the IRS to get at these working
2 papers in nonfraud situations.

3 MR. CHENOK: Jim, let me come back to you
4 for a minute. We have a few minutes left. Can you give
5 us an idea of what some of the other projects are on the
6 Board's Agenda?

7 MR. LEISENRING: Well, we've got several
8 that are really broad, materiality and audit risk, timing,
9 and these projects sort of are more conceptual in nature
10 impacting auditing across the Board.

11 We've got two or three others that are
12 probably particularly involved small practitioners or
13 smaller firms which I think we want to talk about.

14 One of them is a project called one basic
15 financial statement, which talks in terms of when you
16 audit a financial statement such as a balance sheet, what's
17 the impact on an income statement that accompanies that
18 that may not have been audited, such as for external
19 review, and can the -- the literature doesn't allow that,
20 nor does it at the moment strictly prohibit it, and we've
21 got to resolve what constitutes an audit of a financial
22 statement. That has some impact, certainly on smaller
23 firms.

24 We've gotten a lot of comments from people
25 that the guide for review of a financial forecast was fine,

1 it deals with a specific service of review for a specific
2 type of prospective information forecast, but it doesn't
3 solve the problem.

4 There were some guidance for projections
5 where there's some guidance on other than reviews of
6 forecasts, such as a compilation of forecasts or compilation
7 of other projections.

8 We've got a Committee that is a broad
9 committee that has tax people and ACSEC, Auditing Standards
10 Board people on it dealing with the broader issue of
11 reporting on other forms of prospective information, which
12 I think we have had a lot of demand for.

13 The project that probably has more publicity
14 than any other is a project, it's formally named, it's
15 called the Audit Problems of Small Business. I am not
16 really sure it applies to small business as defined in
17 there. It's any business, large or small, that can be
18 characterized as having the ability -- probability of
19 management override of internal accounting controls, limited
20 segregation duties.

21 We are trying to cope with whether there --
22 within that project, whether there are specific implementation
23 problems in the audit literature of applying what we call
24 small business, though it may not be defined as small.

25 It is in its research phase right now, and some

1 of you probably participated in that.

2 We have 1,400 people that got questionnaires.
3 We got about 700 responses. That's very, you know, very
4 good, because it took about an hour plus to fill out the
5 questionnaire.

6 The professors at the present time are
7 engaged in doing that, and the research results haven't
8 really been studied yet, but it's pretty premature, but
9 I think within a year we'll see some decisions in that
10 area.

11 MR. CHENOK: Mitch, could you in a couple of
12 minutes tell us what the Accounting Standards Executive
13 Committee has on its plate?

14 MR. KRASNOFF: Well, going down sort of
15 chronologically, what you're going to see from ACSEC within
16 the next two to three weeks, the new contractor's audit
17 guide and related SOP will be out, and the Airline
18 Industry Guide will be out.

19 There will also be two narrower SOP's coming
20 out, the document on hospital related organizations, which
21 we have been kicking around for almost two years now,
22 ran into a few snags with the FASB, and, you know, as we
23 said before, under this new arrangement the Board basically
24 has to approve when an SOP gets issued, but it's finally in
25 its final stages and has been approved by the FASB Staff, and

1 probably will be finalized within the next month or two.

2 The Bank Audit Guide, of course, the initial
3 exposure you saw already. The comments are being reviewed
4 right now. It will be back for consideration of the
5 comments, and finalization by ACSEC in September. It's
6 scheduled for, I don't know whether that will be before
7 or after or concurrent, but the hope is that by the end of
8 the year, we will have a new guide.

9 The other thing that you'll be seeing in the
10 next two weeks is a draft of the accounting section of a
11 revised audit guide for personal financial statements,
12 another item that has been kicking around for awhile, and
13 is finally reaching fruition.

14 Issue papers up at the FASB which are in
15 the process of being acted on by them, there's one on the
16 related party transactions which will take the SAS
17 literature on related parties, SAS 6 and move it over into
18 GAAP.

19 Most people don't realize that that is the
20 only item in a financial statement that you normally see
21 disclosed, which is not a GAAP required disclosure. It's
22 an auditing required disclosure, so now it will become GAAP.

23 The other item that the FASB is working on
24 is a pronouncement, a standard on forward placing and
25 interest rates, future contracts which is on their agenda

1 based on a very lengthy issues paper that ACSEC developed.

2 Ready to go to the FASB, not there yet, still
3 being finalized, is an issues paper on installment lending
4 activities of finance companies which will be a revision in
5 the Audit Finance Company Guide, and a document on
6 accounting for agricultural cooperatives and agricultural
7 producers, which hopefully will be the nucleus of a new
8 guide for farmers.

9 Current projects that we are working on that
10 will probably not develop for the next six months to a year,
11 total reconsideration of accounting for stock options and
12 stock appreciation rates, again a perceived problem
13 identified by ACSEC.

14 The literature has been sort of piecemeal,
15 and the new types of compensation plans are being developed,
16 and we just don't feel we have present accounting for them.

17 A document on program accounting. A document
18 on depreciation for income producing real estate. A
19 document for the FASB on discounting in general so that each
20 time the FASB issues a pronouncement discounting doesn't
21 have to be addressed separately, and a document on research
22 and development financing activities which is a practice
23 problem that has developed that ACSEC has picked up, where
24 it's in effect, do you keep R and D off the books of the
25 Company so that it shouldn't have to be expensed. People are

1 forming peripheral organizations to handle R and D in
2 order to keep it off of the books.

3 MR. LEISENRING: I think it's just a legitimate
4 tax shelter.

5 MR. RABY: Right.

6 MR. KRASNOFF: There's no question, it's
7 a tax shelter, but it's also a circumvention of an FASB
8 pronouncement, so that's where we are.

9 MR. CHENOK: Well, Gentlemen, looking at my
10 watch I see our time has come to an end. I want to thank
11 you on two counts. One, for participation here today,
12 and the second count is for the work that each of you
13 have put forward with your Committees in dealing with the
14 problems that face the profession.

15 We all appreciate the time and energies that
16 each of you have devoted on behalf of the profession.

17 I ask the audience to join me.

18 (Applause.)

19 MR. CHENOK: We'll just sit here and watch
20 you close it off.

21 CHAIRMAN KANAGA: We might get a little less
22 static, if you don't mind my saying so, if you do just sit
23 there.

24 MR. CHENOK: You spoke too soon.

25 CHAIRMAN KANAGA: I have had passed to me a

1 note, and I passed it on, I think maybe all of you have
2 received that, had a chance to read it, the note that the
3 Pope has been shot this morning or today in the Vatican
4 during an audience. He's in critical condition. I
5 understand that he's undergoing surgery now, and that it
6 is a difficult surgical task.

7 I would like to ask you to join with me in
8 a time of silent prayer for him.

9 (Whereupon, a moment of silence was then
10 observed.)

11 CHAIRMAN KANAGA: Ladies and Gentlemen,
12 this concludes our Spring Meeting on a somber note as it
13 did at one of our Regional Council Meetings when we learned
14 in the middle of that Council Meeting that the President
15 had been shot. We should pray for the world.

16 Knowing that many of you do have travel
17 commitments that you're anxious to meet, I will close
18 simply by extending my thanks to each and every one of
19 you for joining us here in Phoenix for a meeting that I
20 believe is a little difficult for me to get an objective
21 reading from this side of the microphone, but I believe it
22 has been a rewarding meeting for all of us.

23 Thank you again.

24 The Meeting is adjourned.

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I, MARVIN J. ATWOOD, hereby certify that the proceedings had upon the taking of the foregoing convention are contained fully and accurately in the shorthand record by me made thereof, and that the foregoing 306 typewritten pages constitute a full, true and accurate transcript of said shorthand record, all done to the best of my skill and ability.

DATED this 27th day of May, 1981.

Marvin J. Atwood
Stenographer