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## Remarks, Before the 82nd Annual Meeting of the American Institute of Certified Public Accountants, Los Angeles Hilton, October 8, 1969

James J. Needham

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REMARKS OF JAMES J. NEEDHAM, COMMISSIONER  
SECURITIES AND EXCHANGE COMMISSION

Before the  
82nd Annual Meeting  
of the

American Institute of Certified Public Accountants

Los Angeles Hilton  
October 8, 1969

Consistent with the policy of the Securities and Exchange Commission, I am required to read the following disclaimer:

The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission....

I am sure that disclaimer conforms with any requirements that the Chairman of the Auditing Committee, Joe Roth, would have; and, is certainly more liberal than the one my former partners required me to read.

I am delighted to be here today, and frankly, somewhat amazed at having the honor of appearing on your formal program; for it was only six short months ago, when in the twilight of my term of office on the Council of the Institute, that, with great fear and trepidation, I rose to speak for the first time. I was impelled to do so because I believed that the course of our profession was being charted into unknown and troublesome seas. I recall that I wondered why others more experienced than I did not recognize what was occurring. As I reached for the microphone, it seemed to me that at last that moment which would justify my creation had finally arrived. It was only I who could foresee the great calamity that was about to be visited upon the profession. Strengthened by that thought, but with a feeble and weak voice, I placed a motion before the Council. Immediately, a great silence settled upon the room. After what seemed to be an interminable interval, the Chairman, Ralph Kent, said: "The motion made by Mr. Needham, from the great State of New York, fails for lack of a second. This meeting of Council is adjourned."

Now, I stand before you as a "regulator." Viewed from the right, as heavy-handed; viewed from the left, as an industry captive. Described by one newspaper, as knowing nothing about the industry he would regulate; and, by another, as involved in an extensive job-training program which was consuming the valuable time of the Chairman of the Commission.

I recall the headline in one newspaper which reported my appointment. It went somewhat as follows: "Appointment of Needham Stirs Controversy." Most of my friends felt that this was hardly news, for I had always been associated with controversy.

On the other hand, I would have been less than prudent if I had not taken cognizance of the implications and significance of that headline. Accordingly, in anticipation of my confirmation hearing by the Senate, I prepared diligently for many of the searching questions I anticipated they would ask me. I read the Rules of Conduct for Commissioners; I read pending legislation; I read the testimony of other Commissioners when they had appeared before the Senate for confirmation; and, I rapidly reviewed the various acts administered by the Commission.

Prepared as best I could, but with a foreboding feeling and the fear of public controversy, I took my children to Washington on the day of the hearing so they could witness our government in action. Three of my former partners were kind enough to be present that day as well. As it turned out, it was good that I had brought my own audience for apparently my appointment stirred no controversy at all.

The questions presented to me that day concerned themselves principally with any possible conflict of interest that might arise in connection with my new position. I recall that one Senator, after looking at my financial statement, said -- for the whole world to know -- I have reviewed his personal financial statement and I cannot visualize how a conflict of interest could conceivably arise. Once again my shortcomings were displayed for all to see.

I should make it perfectly clear to you that rumors which abound about the fringe benefits afforded Commissioners are absolutely untrue:

We do not have chauffeured limousines;  
we do not have our own private dining rooms;  
we do not have expense accounts; however,  
we do have our own parking space -- for which  
we pay \$23.50 a month.

Despite these humbling experiences, I want all of you, my good friends, to know that this appointment has been from the very beginning the most exciting experience in my professional career. I urge each of you to consider government service, for it is more meaningful and rewarding than I am capable of describing.

Now I would like to speak on the assigned topic. First, let me tell you that Len Savoie sent me a book covering the papers and talks presented at the Seaview Symposium at which the topic was "Corporate Financial Reporting: Conflicts and Challenges." I have read that book. I have also read a lot of other material similarly related to corporate reporting and particularly concerning the Accounting Principles Board. Much of it had been said before and very little of it is particularly new. It seems to me that a great many people, on a great many occasions, have found much to criticize about the Accounting Principles Board and its predecessor committee.

As for me, I came here to praise Caesar, not to bury him.

Before any more criticisms are made of the Accounting Principles Board, critics should first examine the contribution being made. Not only in terms of money but in terms of personal dedication, personal sacrifice, and, in terms of firm and industry support. I cannot think of any other group which gives more freely of its time in the public interest. Rather than criticize, speak out positively so that the Board will not be discouraged and so as to let them know that you understand the magnitude of the problems confronting them.

One of the contributors to the Seaview Symposium predicted that the Securities and Exchange Commission would usurp the authority of the Accounting Principles Board. Gentlemen, nothing in the record supports that opinion. The attitude of the Commission was expressed by our former Chairman to the annual meeting of the Institute in 1966: he said

Let me emphasize again ... that Congress gave us [the Commission] the final responsibility for insuring that adequate standards of disclosure are maintained, and it is a responsibility that we take very seriously. However, we prefer -- and I anticipate that the Commission will always prefer -- to accomplish these objectives through cooperation as long as we are persuaded that it is an effective and expeditious way to achieve them.

For all those that are interested, let me say the attitude of the Commission has not changed. I continue to anticipate that we will look to the Accounting Principles Board to play the major role in the development of accounting principles and disclosure requirements so as to improve corporate financial reporting.

Now that does not imply that from time to time we will not find it necessary to spur you on or to suggest priorities for subjects different from those established by yourselves. But then, who is it that is in complete agreement with anyone else? Progress in this life of ours, of necessity, involves making compromises. The assignment of priorities, it would seem, is no different.

Though the order of scheduled accomplishments is important, it is secondary. The main thrust is -- is the Board -- and -- are the other people involved with their work -- committed to a course of action for the development and improvement of accounting principles and reporting techniques? The record is quite clear. The Board is -- and the other parties involved are -- dedicated to the advancement of knowledge in those areas.

I am satisfied that the profession is now doing all within its power to produce the solutions to the many problems confronting those involved in corporate financial reporting. I urge all interested groups to continue to support one another because the project is tremendous and it would be unfortunate if the overall effort were diluted by meaningless, critical statements. The time has come for all to put their shoulders behind the wheel to speed the rate of progress in this area. The outstanding contribution of the Financial Executives Institute towards the development of the Commission's release on product line reporting is an example of cooperative effort in this area.

Now that does not imply that new techniques and better ways of accomplishing the objectives should not be sought. But it would seem that most of it has been said. The responsible leaders of the profession should be allowed to deal with their own structure, taking into account the thoughts of all interested parties. That is the philosophy of self-regulation. It is the American way!

The record shows the Accounting Principles Board has done much to establish working arrangements with members of the accounting profession and others who are outside the public practice of accountancy but whose interests in the pronouncement of the Accounting Principles Board are just as real and valid. The National Association of Accountants has formed a special committee to deal with accounting and reporting problems. Their cooperative effort will add substantial talent and expertise to the groups presently concerned with those matters. Again, I call upon all to work together as a team, pointed down field towards the goal of improved corporate financial reporting.

But, what all of the groups contributing to this effort must realize, is that sooner or later, someone must make the final decision. Historically, the decision has been made by the Accounting Principles Board. No substantive reasoning has been advanced which would justify a departure from the course of history. In fact the participants of the Seaview Symposium supported the rule making authority of the Board.

Despite the team effort, however, there will be those whose viewpoints will not prevail. This should not discourage them, for a disciplined, informed minority viewpoint is the essence of the American democratic process.

Furthermore, we should realize that even our best efforts are not perfect, and, that opinions of the Board can be changed and altered without, necessarily, any loss of stature of the Board. Considering the time scheduling and the massive joint participation, the Board can be expected to behave in a human fashion and make mistakes. We should not expect of it any greater level of perfection than we are individually and collectively capable of.

Much of the discussion of accounting principles revolves around comparability and uniformity. The objective of those espousing each of such causes is to make financial statements more understandable to the individual investor. Certainly we are all interested in that objective and we support it enthusiastically. Realistically, however, I wonder if comparability and uniformity can ever be completely accomplished or, if you will, if it is always desirable.

Some times simplicity is misleading. Many have difficulty on Christmas Eve following those instructions which are intended to be so simple a child can follow them; most have no understanding of the Latin used by a doctor in writing a prescription; what is it then that makes some people feel that when they look at a financial statement there should be an "instant understanding" of complex, factual and judgment situations? I submit that we should work towards greater uniformity, comparability and even simplicity, but our public utterances should be tempered by the realization that they may never be completely achieved.

Responsible management at the highest levels is in the best position to deal with these matters immediately. No one will object to the inclusion in the footnotes of additional information which furnishes more complete details, in non-technical language, of accounting practices regularly employed by the company, or, about unusual year-end transactions and adjustments. Corporate accounting officers could accomplish this objective without either the Accounting Principles Board or the Commission. The disclosure rules of the Commission should be viewed as minimal in these respects.

This approach is at variance with the advocacy role acted out by the few who have been misled to believe the security laws can be approached in the way of Robin Hood and the Sheriff of Nottingham. Our statutes are designed to protect 26 million individual investors. I view that responsibility seriously.

In the fiscal year ending June 30, 1969, 4,706 registration statements were filed with the Commission covering offerings of approximately \$87 billion of securities. Each filing contained financial statements which were examined by Independent Public Accountants. There should be no question in anyone's mind how the Commission views the important role that the profession plays in furnishing financial information to investors. We view you, in a sense, as a husband views his mate. We are always proud of you even when momentarily we may be disappointed with a particular action.

The accounting profession can be proud of itself and its contribution to our economy. You are -- and will continue to be -- a recognized profession which contributes significantly to investor knowledge and, thereby, acting with others, nurtures and sustains our economic system which has made the hopes of our founders attainable and made this the most productive nation ever known to mankind.