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THE CHANGING WORLD OF THE ACCOUNTANT:
WHERE THE NEXT STEPS SHOULD LEAD

An Address By Harold M. Williams, Chairman
Securities and Exchange Commission

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During most of this century, the accounting profession has grown and flourished in the safety of relative obscurity. "Historically, Congress and the public have," as one recent study of the profession put it, "regarded accounting as an arcane subject better left to accountants themselves." */ This tendency to view accounting as a mysterious and incomprehensible art -- graspable only by mild-mannered initiates clad in green eye-shades -- carried with it a corollary misconception: To the extent that they thought about it, most of the public probably believed that the hallmark of accounting was a sort of mechanical precision or unquestionable exactitude. Once an accountant had placed his imprimatur on a financial statement, it could safely be accepted as correct, as objective fact, verifiable down to the last penny -- a misunderstanding which accountants and others helped to fuel by expressing earnings per share in just that two decimal-place form. The notion that the application of accounting principles and the selection and

*/ The Accounting Establishment, A Staff Study, Senate Document No. 94-34, prepared by the Subcommittee on Reports, Accounting, and Management of the Committee on Government Operations, United States Senate, 95th Congress, 1st Session at 2 (March 31, 1977).

scope of audit procedures might sometimes require a sophisticated exercise of judgment -- about which reasonable accountants might disagree -- was one which occurred to few not intimately familiar with the profession.

This public misconception of infallibility may, I suspect, have brought many accountants no small measure of secret inner pleasure. After all, the Academy of Motion Picture Arts and Sciences chose neither doctors nor lawyers to deliver the sealed envelopes and thus to lend an air of unquestionable integrity and reliability to its award-conferring ceremonies. But the gap between the accountant's understanding of the limits of his craft and the public's exaggerated view of the precision of financial reporting and of the purpose and meaning of the auditor's certificate lead inevitably to a reaction -- the placing of the blame for perceived shortcomings in the business community upon the accounting profession. As the Congressional study I mentioned earlier stated,

"Continual revelations of wrongdoing by publicly-owned corporations have caused a new awareness of the importance of accounting practices in permitting such abuses to occur.
* * * Accounting practices ultimately involve

social issues that effect the nation's economic welfare. * * * Accounting issues are too important to be left to accountants alone." */

The implications and consequences of this new public and Congressional scrutiny are not yet fully resolved. Approximately seven weeks ago, the Securities and Exchange Commission sent to Congress a 1200-page report on the accounting profession and its responses to the challenges confronting it. That report, both by its content and its sheer volume, reflects the complexity and scope of the changes which have engulfed the profession. Only one thing is fully clear. In response to both internal and external questions and criticisms, accountants are now engaged in a re-examination and a restructuring which will almost certainly result in a profession which, five years from now, is governed and practiced in a fashion different from that familiar today.

This morning I want to focus on two of the most central and far-reaching of the profession's initiatives -- the

*/ Id.

Financial Accounting Standards Board's conceptual framework project and the AICPA's development of a self-regulatory apparatus for accountants who audit public companies. These efforts encompass the two most fundamental questions facing accountants today. The conceptual framework project seeks to provide a comprehensive and coherent definition of the nature and function of accounting principles -- principles which have subtle and profound impact on our economy and our society. And, just as the conceptual framework will provide a theoretical foundation for the profession, the AICPA's SEC Practice Section seeks to create a basic structure and framework for the practice of accountancy, including the discipline and quality control of independent auditors who play an essential role in the application of accounting principles. Thus, if these initiatives succeed in fulfilling the expectations which many inside and outside the profession hold for them, the foundation will be in place for a profession which can continue to enjoy the trust and integrity which has characterized accounting in the past. If they fail,

the result will be a leadership vacuum which government will undoubtedly fill. For that reason, I urge each of you to make a personal commitment to the success of both of these undertakings, and want to offer you my perspective on some key aspects of each of them.

The Conceptual Framework Project

I will turn first to the ongoing examination of the profession's theoretical foundations -- the FASB's conceptual framework project. That initiative exemplifies the kind of important and fundamental task which the profession can perform best. It is, along with the development of the SEC Practice Section, an excellent opportunity for accountants to demonstrate to the profession's critics effectiveness in confronting the important issues.

The conceptual framework must be -- as I think the Board recognizes -- much more than merely an attempt to catalog the premises and assumptions which are implicit in accounting as it exists today. The project must rather constitute an exercise in leadership -- an effort to create a set of principles which can serve as a goal, a visionary guide, for the profession to work toward as it develops and

refines disclosure principles and methodologies. It is a safe prediction that, during the coming decades, the economic, political, and technological changes in this country and the world -- and their impact on the nature and methods of American business -- will be enormous. The accounting profession must have a conceptual framework sufficiently flexible and broad to accommodate those developments.

For that reason, a meaningful and successful statement of the conceptual framework cannot possibly be produced in an atmosphere of compromise, aimed at reconciling theoretical differences and conflicts with current practice. On the contrary, the conceptual framework -- if it accomplishes its purposes -- will quite naturally reflect the gap between present accounting methods and the precepts reflected in the framework. The process of filling that gap will be a separate task to which accountants can turn after the framework, the profession's constitution, has been established.

A. The scope of the conceptual framework

In order to attain these lofty objectives, the project must address and resolve several crucial issues. The first is assuring that the conceptual framework has

sufficient scope. In December 1977, the Board issued an exposure draft of its "Statement of Financial Accounting Concepts" which spells out the Board's view of the scope of financial reporting objectives and of the elements of financial statements. This proposed statement is particularly important to the future direction of financial reporting in the United States, and I want to take a moment to review some of its highlights.

First, the Board has not limited its scope to financial statements, but rather has -- wisely, in my view -- elected to define its task in terms of financial reporting in general. That premise, if reflected in the Board's final product, will bring the accounting profession closer into step with the needs and expectations of the users of financial information and with the realities of the way business must communicate in a complex and sophisticated economy. Second, and just as significantly the exposure draft reflects the philosophy that financial information is not simply a record of past occurrences, but is equally of value in enabling users to assess the

future. Again, that principle is one which harmonizes with the realities of modern financial reporting.

Both of these concepts are responsive to shortcomings which numerous critics have attributed to our present system of financial reporting. Until very recently, the focus of financial disclosure has been much too heavily on accounting questions within the context of traditional financial statements. Unfortunately, the approach has tended to be an "all or nothing" one. That is, information not perceived as being part of historical cost financial statements has frequently been regarded as wholly outside the discipline of accounting and has thus received inadequate attention, regardless of its utility, from either the practicing or academic sides of the profession. And, correspondingly, disclosures which users have demanded and which are "financial" in nature -- such as segment information and geographic operating data -- have been forced into the mold of the financial statement, even where the information involved does not fall squarely within traditional financial statement concepts.

The Board's recognition that the accountant's domain can extend to disclosures outside the four corners of the

