



**SECURITIES AND
EXCHANGE COMMISSION**

Washington, D. C. 20549

(202) 272-2650



REMARKS OF
JOHN S.R. SHAD
CHAIRMAN, U.S. SECURITIES AND EXCHANGE COMMISSION
BEFORE THE
ANNUAL MEETING
OF THE
AMERICAN ACCOUNTING ASSOCIATION

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LADIES AND GENTLEMEN:

I APPRECIATE THIS OPPORTUNITY TO BE WITH YOU. SPEAKING TO THIS AUDIENCE, WHICH INCLUDES SO MANY RECOGNIZED AUTHORITIES ON ACCOUNTING MATTERS, REMINDS ME OF THE MAN WHO DROWND IN THE YOUNGSTOWN FLOOD. WHEN HE ARRIVED IN HEAVEN, ST. PETER SAID, "IN ORDER TO ENTER HERE, YOU HAVE TO APPEAR BEFORE THE ANGELS AND GIVE AN INTERESTING AND INFORMATIVE TALK. WHAT WOULD YOU LIKE TO TALK ABOUT?" THE MAN PAUSED AND SAID, "WELL, SINCE I JUST DROWND IN THE YOUNGSTOWN FLOOD, I GUESS I COULD TALK ABOUT FLOODS." ST. PETER SAID, "FINE, I'LL CALL THE ANGELS TOGETHER, AND YOU TELL THEM ALL ABOUT FLOODS, BUT REMEMBER, NOAH WILL BE IN THE AUDIENCE."

THE ONLY OTHER TIME THAT I HAVE TALKED ABOUT ACCOUNTING -- IN PUBLIC -- WAS ABOUT SEVENTEEN YEARS AGO -- TO AN AICPA GROUP -- ON, "HOW INVESTMENT BANKERS APPRAISE CORPORATIONS". I DESCRIBED COMPARATIVE PRICING ANALYSES OF COMPARABLE PUBLICLY OWNED COMPANIES; KEY DATA AND RATIOS; TRADE CHECKS AND OTHER ASPECTS OF SUCH APPRAISALS; AND EMPHASIZED THE NECESSITY TO ANALYZE THE SPECIFIC GENERALLY ACCEPTED ACCOUNTING PRINCIPLES UPON WHICH EACH COMPANY'S FINANCIAL STATEMENTS ARE BASED.

MY KNOWLEDGE OF GAAP WAS LIMITED -- THEN. IT IS LESS TODAY. SO I APPROACHED THIS SESSION, WITH EVEN GREATER TREPIDATION THAN THE MAN FROM YOUNGSTOWN.

I WOULD LIKE TO PROVIDE A BRIEF OVERVIEW OF THE COMMISSION AND THEN DISCUSS AREAS RELEVANT TO THE ACCOUNTING PROFESSION.

BREADTH OF SEC ACTIVITIES:. AS YOU MAY KNOW, REGISTRATION AND TRANSFER FEES COVER ABOUT 65% OF THE COMMISSION'S \$80,000,000 BUDGET. IN ADDITION TO THE ACCOUNTING PROFESSION, THE COMMISSION'S 1,200 PROFESSIONALS HAVE OVERSIGHT, DISCLOSURE OR ENFORCEMENT RESPONSIBILITIES CONCERNING THE NATION'S, 9,000 PUBLICLY OWNED CORPORATIONS, 7,000 INVESTMENT BANKING AND BROKERAGE FIRMS, 6,000 INVESTMENT ADVISERS, 1,500 INVESTMENT COMPANIES, 13 MAJOR PUBLIC UTILITY HOLDING COMPANIES, THE TEN SECURITIES EXCHANGES, THE OVER-THE-COUNTER MARKET AND THE SECURITIES INVESTOR PROTECTION CORPORATION.

THE SEC'S PRIMARY RESPONSIBILITIES ARE INVESTOR PROTECTION AND THE MAINTENANCE OF FAIR AND ORDERLY MARKETS. IT IS ATTEMPTING TO DISCHARGE THESE RESPONSIBILITIES THROUGH EFFECTIVE DISCLOSURE, OVERSIGHT AND ANTIFRAUD ENFORCEMENT, WITHOUT IMPOSING EXCESSIVE REGULATORY BURDENS ON THE ECONOMY.

FOR EXAMPLE, LAST WEEK THE CORPORATION FINANCE DIVISION RELEASED FOR PUBLIC COMMENT ITS "INTEGRATION PACKAGE", WHICH TELESCOPES THE PAPERWORK, TIME AND EXPENSES PRESENTLY INCURRED BY

PUBLIC CORPORATIONS. IT WILL CONSOLIDATE AND ELIMINATE DUPLICATIVE REGISTRATION AND REPORTING REQUIREMENTS UNDER THE MULTIPLE SECURITIES LAWS AND REGULATIONS -- WITHOUT COMPROMISING FULL DISCLOSURE OF CORPORATE INFORMATION.

EARLIER THIS WEEK, CORPORATION FINANCE ALSO RELEASED FOR PUBLIC COMMENT, LIMITED REGISTRATION EXEMPTIONS AT THE STATE AND FEDERAL LEVELS, FOR CERTAIN SMALL SECURITY OFFERINGS, TO BE SOLD TO QUALIFIED INVESTORS. THIS IS THE FIRST SUCH UNIFORM STATE AND FEDERAL PROPOSAL.

OTHER AREAS UNDER REVIEW INCLUDE:

- BROKER/DEALERS' NET CAPITAL AND RELATED REGULATIONS;
- INVESTMENT COMPANY REGULATIONS AND REPORTING REQUIREMENTS AND SELF-REGULATION;
- THE PUBLIC UTILITY HOLDING COMPANY ACT; AND
- THE TENDER OFFER RULES AND REGULATIONS.

EFFECTIVE DISCLOSURE: VOLUMINOUS PROSPECTUSES, PROXIES AND 10-Ks, LARDED WITH BOILERPLATE AND LEGALESE, OBFUSCATE RATHER THAN INFORM. FULL DISCLOSURE OF MATERIAL NEGATIVE AND AFFIRMATIVE FACTS SHOULD BE SET FORTH IN CLEAR, CONCISE LANGUAGE INTELLIGIBLE TO THE AVERAGE INVESTOR.

MARKET SURVEILLANCE: THE COMMISSION AND THE SECURITIES INDUSTRY USE COMPUTERIZED MARKET SURVEILLANCE SYSTEMS TO IDENTIFY ANOMALOUS

TRADING ACTIVITIES THAT SUGGEST MARKET MANIPULATION, ABUSE OF INSIDE INFORMATION AND OTHER FRAUDULENT ACTIVITIES. THESE SYSTEMS ARE UNDER REVIEW IN ORDER TO DETERMINE HOW TO MONITOR EFFECTIVELY INTER-MARKET TRADING ACTIVITIES; AND ALSO THE COST-EFFECTIVENESS OF THE COMMISSION'S SYSTEM.

SECURITIES INVESTOR PROTECTION CORPORATION: FINANCIAL ASPECTS OF THE SECURITIES INDUSTRY ARE ALSO UNDER REVIEW. THE FAILURE OF A MAJOR FIRM COULD HAVE A SNOWBALL EFFECT ON THE SECURITIES INDUSTRY BECAUSE OF THE LARGE VOLUME OF OPEN TRANSACTIONS BETWEEN FIRMS AT ANY GIVEN MOMENT. THE FEDERAL DEPOSIT INSURANCE CORPORATION HAS THE AUTHORITY TO FACILITATE MERGERS OF FAILING BANKS, WHEREAS THE SECURITIES INVESTOR PROTECTION CORPORATION, WHICH IS LARGELY SELF-SUPPORTING, ONLY HAS THE AUTHORITY TO LIQUIDATE FAILING SECURITIES FIRMS. LIQUIDATION IS DRASTIC, TIME-CONSUMING AND EXPENSIVE. ALSO, SIPC DOES NOT INSURE BALANCES DUE OTHER SECURITIES FIRMS.

INVESTMENT COMPANIES: AT THE PRESENT TIME, THE COMMISSION IS SUPERVISING DIRECTLY 1,500 INVESTMENT COMPANIES AND 6,000 INVESTMENT ADVISERS. ALTERNATIVE MEANS OF CREATING EFFECTIVE SELF-REGULATION OF THESE IMPORTANT ACTIVITIES ARE BEING REVIEWED.

ANTIFRAUD ENFORCEMENT: THE COMMISSION WILL CONTINUE TO ENFORCE VIGOROUSLY THE ANTIFRAUD PROHIBITIONS, INCLUDING MARKET MANIPULATION, ABUSE OF INSIDE INFORMATION, ORGANIZED CRIMINAL ACTIVITIES AND FRAUD. IN ORDER TO ENCOURAGE PROMPT VOLUNTARY CORPORATE COMPLIANCE,

THE COMMISSION WILL GIVE CONSIDERATION TO THE EFFORTS OF COMPANIES WHICH PROMPTLY CORRECT ERRONEOUS OR INADEQUATE DISCLOSURES AND TAKE APPROPRIATE REMEDIAL ACTIONS.

FOREIGN INVESTMENT: U.S. CAPITAL FORMATION BENEFITS FROM FOREIGN INVESTMENT IN OUR CAPITAL MARKETS (I.E., THE IMPORTATION OF CAPITAL FROM ABROAD). FOREIGN INVESTMENT IS BEING FACILITATED THROUGH THE ADMISSION OF FOREIGN BROKERS TO MEMBERSHIP IN U.S. EXCHANGES.

MAJOR U.S. CORPORATIONS HAVE READY ACCESS TO THE EURODOLLAR MARKET, WHICH OCCASIONALLY AFFORDS MORE ADVANTAGEOUS FINANCING TERMS THAN HERE. HOWEVER, U.S. CORPORATIONS' ACCESS TO THE INTERNAL CAPITAL MARKETS OF SOME COUNTRIES IS LIMITED. THE QUESTION POSED IS WHETHER WE SHOULD FACILITATE EXPORTATION OF CAPITAL FROM THE U.S. TO EXPAND AND MODERNIZE PRODUCTION FACILITIES IN INDUSTRIALIZED COUNTRIES WHICH ENJOY HIGHER RATES OF CAPITAL FORMATION, PRODUCTIVITY AND GROWTH THAN WE DO, BUT WHICH DO NOT AFFORD U.S. CORPORATIONS EQUAL ACCESS TO THEIR CAPITAL MARKETS.

THE ACCOUNTING PROFESSION: WITH SPECIFIC REFERENCE TO THE ACCOUNTING PROFESSION, I BELIEVE THE PRIVATE SECTOR CAN REGULATE ITSELF MORE EFFECTIVELY THAN THE GOVERNMENT CAN; AND THAT THE COMMISSION'S ROLE SHOULD REMAIN PRIMARILY ONE OF OVERSIGHT, RATHER THAN REGULATION.

THE FINANCIAL ACCOUNTING STANDARDS BOARD: THE PRIVATE SECTOR'S PRINCIPAL ACCOUNTING STANDARD-SETTERS ARE, OF COURSE, THE FINANCIAL ACCOUNTING STANDARDS BOARD AND THE AUDITING STANDARDS BOARD. BOTH ARE ENDOWED WITH SUBSTANTIAL RESOURCES AND EXPERTISE.

STANDARD-SETTING IS A VERY DIFFICULT TASK, AND THOSE RESPONSIBLE ARE EASY TARGETS FOR CRITICISM. FOR EXAMPLE, SOME HAVE CALLED UPON THE FASB FOR FASTER ACTION ON MAJOR ISSUES, SUCH AS CONSOLIDATIONS, BUSINESS COMBINATIONS, INVENTORY ACCOUNTING AND DEPRECIATION, AS WELL AS EMERGING PRACTICE PROBLEMS, SUCH AS ACCOUNTING FOR RESEARCH AND DEVELOPMENT FINANCED THROUGH LIMITED PARTNERSHIPS. OTHERS, WHO BELIEVE THE FASB SHOULD BE MORE CONCERNED WITH BROAD CONCEPTS AND GUIDELINES, HAVE EXPRESSED CONCERN OVER POSSIBLE STANDARDS-OVERLOAD. THUS, THE FASB'S QUEST FOR MORE USEFUL AND COST EFFECTIVE FINANCIAL REPORTING IS A DIFFICULT ONE.

NONETHELESS, THE ACCOUNTING PROFESSION AND INDUSTRY NEED STANDARDS AND GUIDELINES WHICH:

- DEFINE THE DIMENSIONS WITHIN WHICH INDIVIDUAL PROFESSIONAL JUDGMENT SHOULD BE EXERCISED;
- PROVIDE REASONABLE ASSURANCE OF COMPARABILITY AMONG FINANCIAL REPORTS; AND WHICH
- SERVE AS BENCHMARKS, AGAINST WHICH PROFESSIONAL PERFORMANCE CAN BE EVALUATED.

I AM SURE WE ALL HOPE THE FASB WILL BE ABLE TO PROVIDE TIMELY GUIDANCE ON MAJOR ISSUES AND EMERGING PROBLEMS, WITHOUT IMPOSING EXCESSIVELY DETAILED TECHNICAL REQUIREMENTS.

THE COMMISSION'S ACCOUNTING REQUIREMENTS: OVER THE YEARS, THE COMMISSION HAS ACCUMULATED A BODY OF ACCOUNTING RELATED RULES AND INTERPRETATIONS WHICH ARE EMBODIED IN REGULATION S-X AND THE ACCOUNTING SERIES RELEASES. THE SEC'S OFFICE OF THE CHIEF ACCOUNTANT IS ENGAGED IN A CONTINUING REVIEW OF REGULATION S-X, WITH A VIEW TO SIMPLIFICATION -- OR ELIMINATION OF SPECIFIC RULES, WHERE APPROPRIATE. SUBSTANTIAL PROGRESS IS EXPECTED WITHIN THE NEXT FEW MONTHS IN SUCH AREAS AS THE REQUIREMENTS FOR SEPARATE FINANCIAL STATEMENTS; PROPERTY, PLANT AND EQUIPMENT SCHEDULES; AND SPECIALIZED INDUSTRY FINANCIAL STATEMENTS. THE CHIEF ACCOUNTANT'S OFFICE IS ALSO ENGAGED IN A CRITICAL REVIEW OF THE SEC'S ACCOUNTING SERIES RELEASES. THE OBJECTIVE IS TO DELETE UNNECESSARY INTERPRETATIVE RELEASES AND TO PUBLISH A COMPILATION OF THOSE WHICH REMAIN RELEVANT. A SIGNIFICANT REDUCTION IN THE NUMBER OF SUCH RELEASES IS EXPECTED.

THE FASB CAN CONTRIBUTE TO THESE EFFORTS BY REVIEWING THE COMMISSION'S ACCOUNTING RULES TO DETERMINE THOSE WITH WHICH THEY CAN APPROPRIATELY DEAL. PRIVATE SECTOR STANDARDS HAVE ALREADY ENCOMPASSED MANY COMMISSION REQUIREMENTS. FOR EXAMPLE, THE COMMISSION WITHDREW ITS REPLACEMENT COST RULES AFTER THE FASB ISSUED ITS STANDARD ON INFLATION AND CHANGING PRICES. THE COMMISSION IS PRESENTLY REEVALUATING ITS LONG-TERM OBLIGATIONS RULES NOW THAT THE FASB HAS

ISSUED ITS STANDARD IN THIS AREA. THE COMMISSION ALSO RECENTLY ENDORSED THE FASB'S PROJECT TO DEVELOP SUPPLEMENTAL DISCLOSURES FOR OIL AND GAS PRODUCING COMPANIES. HOPEFULLY, THE ULTIMATE RESULT OF THIS PROJECT WILL BE A SIGNIFICANT REDUCTION IN THE COMMISSION'S REQUIREMENTS. I AM SURE WE ALL HOPE THE PRIVATE SECTOR WILL CONTINUE TO INCREASE ITS RESPONSIBILITY FOR FINANCIAL REPORTING GUIDELINES.

THE AUDITING STANDARDS BOARD: THE ASB SHOULD ALSO PLAY AN INCREASINGLY IMPORTANT ROLE IN SELF-REGULATION. ONE OF THE AREAS THE COMMISSION SHOULD BE ABLE TO LOOK TO THE ASB FOR LEADERSHIP IS IN DETERMINING THE NATURE, EXTENT AND NEED FOR EXPLICIT REPORTING BY AUDITORS ON SUPPLEMENTAL FINANCIAL INFORMATION.

THE ASB COULD ALSO REVISIT THE SUBJECT OF ACCOUNTING CHANGES AND AUDITORS' RESPONSIBILITIES FOR ASSURING THAT THE NEW METHODS ARE PREFERABLE UNDER THE CIRCUMSTANCES. I UNDERSTAND THE CONTROVERSIES SURROUNDING THIS RULE, AND THE COMMISSION'S OBJECTIVES IN ADOPTING IT; HOWEVER, APPROPRIATE CLARIFICATION OF AUDITORS' RESPONSIBILITIES IN THIS AREA WOULD PERMIT THE COMMISSION TO RESCIND ITS PREFERABILITY LETTER REQUIREMENT.

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS: THE NEWEST AND MOST IMPRESSIVE SELF-REGULATORY ORGANIZATION IS THE AICPA'S DIVISION FOR CPA FIRMS. ITS PEER REVIEW AND OTHER MEMBERSHIP REQUIREMENTS SHOULD AFFORD CORPORATIONS, AS WELL AS INDIVIDUAL AND INSTITUTIONAL INVESTORS, THE REQUISITE DEGREE OF

ASSURANCE THAT ITS MEMBERS CONSISTENTLY CONDUCT THEIR ACCOUNTING AND AUDITING PRACTICE IN ACCORDANCE WITH THE HIGHEST PROFESSIONAL STANDARDS.

IT IS ALSO IMPRESSIVE THAT THE MEMBERS OF THE DIVISION'S SEC PRACTICE SECTION, AUDIT OVER 90% OF REPORTING PUBLIC COMPANIES, INCLUDING VIRTUALLY ALL U.S. COMPANIES LISTED ON THE NEW YORK AND AMERICAN STOCK EXCHANGES. THE COMMISSION ENDORSES THE AICPA COUNCIL'S DECISION TO PUBLISH A DIRECTORY OF THE DIVISION'S MEMBERS. SOME HAVE QUESTIONED WHETHER THE SEC PRACTICE SECTION WILL BE ABLE TO SANCTION APPROPRIATELY MEMBERS FOR SERIOUS DEFICIENCIES UNCOVERED DURING PEER REVIEWS OR AS A RESULT OF AUDIT FAILURES. TO DATE, THE SECTION HAS TAKEN LARGELY REMEDIAL ACTION. VOLUNTARY AGREEMENTS TO CORRECT DEFICIENCIES, ADDITIONAL PROFESSIONAL TRAINING, AND FOLLOW-UP PEER REVIEWS, MAKE SENSE; HOWEVER, IN EGREGIOUS CASES, HEAVIER SANCTIONS MAY BE NEEDED TO ENSURE THE CREDIBILITY OF THE SECTION'S DISCIPLINARY PROCEDURES.

THE PUBLIC OVERSIGHT BOARD: IN ANY NEW ORGANIZATION, THE INITIAL PRACTICES AND PROCEDURES SHOULD BE PERIODICALLY EXAMINED TO SEE IF CHANGES ARE NEEDED. THE SECTION HAS ALREADY MADE SOME CHANGES. IN RESPONSE TO QUESTIONS RAISED ABOUT COST-EFFECTIVENESS, THE SECTION'S PUBLIC OVERSIGHT BOARD HAS BEEN STUDYING THE CONTINUED NEED FOR THE QUALITY CONTROL REVIEW PANEL IN THE CONDUCT OF PEER REVIEWS. LATER THIS YEAR, THE OFFICE OF THE CHIEF ACCOUNTANT WILL BE AFFORDED ACCESS TO CERTAIN PEER REVIEW WORKPAPERS IN ORDER TO ASSESS THE EFFECTIVENESS OF THE PEER REVIEW PROGRAM AND EVALUATE THE PUBLIC

OVERSIGHT BOARD'S DETERMINATION AS TO THE COST-EFFECTIVENESS OF THE QUALITY CONTROL REVIEW PANEL. AN OBJECTIVE WILL BE TO REDUCE THE COMMISSION'S DIRECT OVERSIGHT BY PLACING GREATER RELIANCE ON THE PUBLIC OVERSIGHT BOARD.

NON-AUDIT SERVICES: FINALLY, I WOULD LIKE TO MENTION TWO SPECIFIC DEREGULATORY INITIATIVES. AS YOU KNOW, SEC ACCOUNTING SERIES RELEASE 250 REQUIRES PROXY DISCLOSURE OF NON-AUDIT SERVICES PROVIDED ISSUERS BY THEIR AUDITORS; AND ASR 264 DISCUSSES THE FACTORS TO BE CONSIDERED IN ASSESSING THE EFFECTS OF SUCH SERVICES ON ACCOUNTANTS' INDEPENDENCE. THESE RELEASES WERE IN RESPONSE TO CONCERNS OVER THE POSSIBLE IMPACT OF NON-AUDIT SERVICES ON ACCOUNTANTS' INDEPENDENCE. WHEN ASR 250 WAS ISSUED, THERE WAS LITTLE, IF ANY, PUBLICLY AVAILABLE INFORMATION ON THE NATURE AND EXTENT OF SUCH SERVICES.

THE SEC STAFF HAS BEEN MONITORING THESE DISCLOSURES FOR THE PAST THREE YEARS. THEY HAVE CONCLUDED THAT CONTINUED PROXY DISCLOSURES OF NON-AUDIT SERVICES MAY NOT BE OF SERIOUS INTEREST TO INVESTORS. ALSO, SOME BELIEVE ASR 250 AND 264 HAVE HAD THE UNINTENDED EFFECT OF DISCOURAGING MANAGERMENTS AND BOARDS OF DIRECTORS FROM RETAINING THEIR ACCOUNTANTS TO RENDER ANCILLARY SERVICES, EVEN THOUGH SUCH SERVICES WOULD NOT COMPROMISE ACCOUNTANTS' INDEPENDENCE.

THEREFORE, CHIEF ACCOUNTANT CLARENCE SAMPSON, HAS EVIDENCED HIS INTENTION TO RECOMMEND LATER THIS MONTH THAT THE COMMISSION

WITHDRAW ASR 264 AND SUBMIT FOR PUBLIC COMMENT THE WITHDRAWAL OF ASR 250. THESE INITIATIVES ARE OF COURSE SUBJECT TO APPROVAL BY THE COMMISSION.

ANY SUCH DEREGULATORY INITIATIVES SHOULD NOT LESSEN THE PROFESSION'S DILIGENT MAINTENANCE OF ITS INDEPENDENCE, WHICH IS OF COURSE FUNDAMENTAL TO ITS CREDIBILITY. PRIVATE SECTOR ACTIVITY, INCLUDING PUBLIC OVERSIGHT BOARD MONITORING, THE PEER REVIEW PROCESS AND THE PUBLIC DISCLOSURES OF MANAGEMENT ADVISORY SERVICES, PURSUANT TO THE SEC PRACTICE SECTION REQUIREMENTS, SHOULD HELP ENSURE THAT NON-AUDIT SERVICES DO NOT JEOPARDIZE THE FACT, NOR THE APPEARANCE, OF INDEPENDENCE. IF THE FOREGOING DISCLOSURE REQUIREMENTS ARE WITHDRAWN, THE COMMISSION WOULD EXPECT THE POB TO REVIEW THE ANNUAL REPORTING REQUIREMENTS OF THE SEC PRACTICE SECTION MEMBERS TO ENSURE THAT ADEQUATE INFORMATION IS AVAILABLE.

IN CONCLUSION, THE PROTECTION OF INVESTORS AND THE MAINTENANCE OF FAIR AND ORDERLY MARKETS, THROUGH EFFECTIVE DISCLOSURE, OVERSIGHT AND ANTIFRAUD ENFORCEMENT, WITHOUT IMPOSING EXCESSIVE REGULATORY BURDENS ON THE ECONOMY, FACILITATES CAPITAL FORMATION. AS MENTIONED EARLIER, I BELIEVE THE PRIVATE SECTOR CAN REGULATE ITSELF MORE EFFECTIVELY THAN THE GOVERNMENT CAN. THE ACCOUNTING PROFESSION IS FORGING A MODEL OF SUCH SELF-REGULATION, WHICH MIGHT WELL SERVE AS AN EXAMPLE FOR OTHER SEGMENTS OF THE ECONOMY.

THANK YOU VERY MUCH.