

MEMORANDUM

Atlantic City, N.J.  
December 27, 1937

Commissioner Healy of the S.E.C., speaking before the American Accounting Association at Haddon Hall, Atlantic City, Monday, December 27, 1937, on "The Next Step in Accounting", said that the S.E.C. intends (STEP ONE) to issue rules dealing with accounting subjects. The trouble with accounting, he said, has been that no body has existed with authority to fix standards in accounting. Such a body now exists in the S.E.C., he said; which is independent of those whom he called "special pleaders for their more lucrative clients".

Mr. Healy spoke most forcefully against what he considered improper accounting practices and said he regretted that an attempt had not been made by the Commission to secure a court decision that improper accounting methods rendered financial statements "misleading", regardless of whether or not the facts were fully disclosed.

He said he intended to urge the S.E.C. to publish its decisions on accounting points, even if reached informally, without recourse to stop-order proceedings.

"Vicious practice" was Mr. Healy's description of the use of reproduction-cost estimates as a basis for balance-sheet figures.

As "horrible examples" of present accounting practices, he referred by name to the following cases which the S.E.C. has dealt with:

Northern States Power  
Chesapeake Corporation  
Thermoid Company  
Monongahela & West Penn Power

Mr. Healy said the purpose of accounting was "to account", not to express opinions as to value. He referred to accountancy as the "heartbeat of modern corporation finance".

NEW FORM

Mr. Healy announced that Neff has been working on a new form (STEP TWO) which will replace several of those now in existence, including A-2, and presumably forms A-1 and 10. It will be available to corporations in business over 2 years, for original offerings, exchanges or refundings.

The new form, he said, will take up anew the matter of the accountant's certificate and will require him to state clearly his opinion of the accounting practices followed. "By 'clearly', I mean clearly," he continued, "not in ciphers that would stump Francis Bacon himself." He maintained that the accountant should use non-technical language which the layman can understand. "Subject to the foregoing" will not suffice, he said.

The new form will be submitted for the criticism of accounting societies, Mr. Healy said. Companies organized after January 1, 1938, will be required to show a complete segregation of surplus. Those organized prior to 1938 will follow present requirements plus additional segregation of surplus from revaluation.

In the new form, Mr. Healy said, an effort would be made toward simplification. Experience with present forms had been unsatisfactory in several respects and he hoped the new one would be a form "to end all forms".

#### OTHER ACTIVITIES

In addition, the S.E.C. plans (STEP THREE) to report to the accounting societies cases in which accountants have erred; to continue publication of "accounting releases" by Blough; and to develop a body of accounting principles by decisions.

The Borah-O'Mahoney bill, Mr. Healy said, would lead to demands for accounting controls over industry far greater than anything the S.E.C. has attempted, possibly including uniform classifications of accounts.

In closing, Mr. Healy said the teachers of accounting were free from bias and subservience to clients. If they didn't make as much money as the practitioners, he continued, they should remember Emerson's words "Truth also has its reward".

Later, in answering a question, Mr. Healy said: "We were particularly interested in the formation of this body (American Accounting Association). We felt we could get more disinterested advice from this than from any other accounting body."

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Following Commissioner Healy, A.A. Berle gave an excellent address in which he claimed it would be unfortunate if the government should take authority in stating accounting principles because:

1.. It would be biased in favor of the point of view the particular commission was created to serve.

2.. Practically, its findings would not be subject to review by higher authority, or that continual self-criticism which had made the common law possible. (He used the phrase "Star Chamber" here).

3.. As a practical matter, a lot of the pronouncing would be done by understrappers.

Berle praised what had already been done (New York Stock Exchange, Federal Reserve, Accounting Terminology) and suggested creation of an "Accounting Board", unofficial, which would express the best thought of the profession on any question submitted to it.

(Signed) John L. Carey  
Secretary