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WILLIAMS SEES "CRITICAL PERIOD" FOR PRIVATE SECTOR CONTROL OVER ACCOUNTING STANDARDS

NEW YORK, May 31 -- SEC Chairman Harold M. Williams warned today that "we are at a critical period" for the traditional private sector control over setting the accounting standards which govern financial reporting by publicly-owned corporations.

His comments came in remarks prepared for delivery at a Conference on Financial Reporting and Changing Prices, sponsored by the Financial Accounting Standards Board (FASB), in New York City Thursday afternoon. Mr. Williams was critical of the accounting profession, the corporate community, the interested academic community, and the Commission as well for not doing enough to support innovation and progress in financial reporting. Much of his criticism was directed at the business community for failing to afford the FASB the support necessary for it to exercise leadership.

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"There is an enormous and growing perception and credibility gap between financial reporting and economic reality," Mr. Williams said. "The impact of inflation on traditional accounting conventions is one important symptom of that gap -- it is, however, the underlying ailment and not merely the symptoms which demand our attention.

"...we are at a critical period in assessing the ability of the private sector to move responsibly in addressing the financial reporting issues that confront us today. We need to assure that we have constructive and effective processes through which changes in accounting principles will occur, promptly as the need arises and as the product of both informed experimentation and the best thinking available. That task will require the FASB to continue its efforts to provide leadership -- not merely consensus building -- and will require that the members of the accounting profession and the corporate community encourage the Board to provide that leadership, support the Board's decisions -- even when a particular decision has an adverse impact on the financial results of a particular company...In my view, the future vitality of the private standard setting process hangs in the balance."

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The securities laws give the SEC authority to prescribe standards for publicly-held corporations to follow in reporting financial information. The Commission has, however, traditionally chosen to recognize standards set by a private sector body, and currently gives such recognition to those developed by the FASB.

"While the private sector has demonstrated the ability -- often slow and reluctant -- to be responsive on accounting matters, it has done so largely in reaction to external prodding," Mr. Williams said. "In my judgment, it is essential that this pattern change."

Of particular concern, he continued, is development of methods to account for the effects of inflation and changing prices, which he called "one of the most important issues facing the FASB, the profession, the business community, and, indeed, the general public.

"The accounting profession and the business community are running out of time in which to develop meaningful solutions to this problem," Mr. Williams declared. "It should be a source of embarrassment to both, as it is to me, that more than five years after inflation has been recognized as a serious problem,

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greater progress has not been made in explaining its effect on corporate income. The reluctance to experiment with new ideas and to accept the need for new approaches must be overcome if the credibility of financial reporting is to be maintained."

While praising the FASB's initial proposal to address the problem of inflation accounting, Mr. Williams criticized "the tenor of many of the responses" to it.

"They are primarily negative and self-serving," he said, "the same criticisms I have heard for years. They also seem calculated to ensure that the status quo will be maintained and that the problem will remain unresolved."

Mr. Williams said that while the Commission would continue to look to the private sector for development of accounting standards to cope with the impact of inflation, "We need to make substantial progress and make it now."

"To assume the initiative on this all-important project," he said, "we expect that, much as in a relay race, the receiver of the baton will be moving at a rate of speed at least comparable to that of the passer."

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We are not closed-minded as to approach, and we recognize that we may need to consider safe harbor to encourage experimentation, but we are not flexible as to the need for progress."

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