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Annual Meeting, October 9, 1992, 2:50 p.m., Grand Hyatt, Washington, D. C.

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AMERICAN INSTITUTE
of
CERTIFIED PUBLIC ACCOUNTANTS

Annual Meeting

October 9, 1992
2:50 p.m.
Grand Hyatt
Washington, D. C.

ROY ALLEN & ASSOCIATES, INC.
521 Fifth Avenue, 17th Floor, New York, New York 10175
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P R O C E E D I N G S

CHAIRMAN POLANSKY: We are now going to move into the Annual Members Meeting.

I will also advise you that we have decided that we will not take a break. We will just keep going through in the interest of moving along and being able to perhaps break a little early.

So this is the Annual Members Meeting 1992.

I declare that the 105th Annual Meeting of the American Institute of Certified Public Accountants to be in session.

And as Chairman of your -- past chairman, I guess now -- of your Board of Directors, I bid you welcome.

Our format is somewhat unusual this afternoon since the Annual Members Meeting has been foreshortened in view of the meeting of the Fourteenth World Congress of Accountants which will begin on Sunday here in Washington.

Because of declining attendance, which we've talked about, by members in the traditional Annual Meeting format, the Board of Directors has decided that the traditional blend of technical sessions lasting three days

2 will be done away with and this meeting will be held in
3 conjunction with the Council Meeting.

4 As Jake said at lunch, the meeting next
5 Fall will be in New Orleans and will be a two-day meeting and
6 the Annual Meeting will be a part of that.

7 So if there are any people here that --
8 members who were not here during Council, let me offer a
9 special greeting to you.

10 I believe that some Annual Meeting
11 attendees came in earlier at various points and so we welcome
12 you and hope that you're enjoying this meeting.

13 A copy of the annual joint message from the
14 Chairman and the President together with the audited
15 financial statements for the year just ended have been
16 distributed to the Council and extra copies are available at
17 the registration desk.

18 This material will also appear in The
19 Journal of Accountancy which is mailed to all AICPA members.

20 Now, earlier today you saw a video which
21 summarized the year's activities. If any of you are
22 interested in seeing it again or missed it this morning and
23 would like to see it, we will show it again at the conclusion
24 of the meeting after about a fifteen-minute interval.

25 The video takes about thirty minutes and

2 some of you may be interested in seeing it.

3 Just to briefly cover what happened this
4 morning, as you know, we elected our auditors, J. H. Cohn,
5 and the Council elected Jake Netterville as Chairman of the
6 Board of Directors and Vice Chairman Dom Tarantino of New
7 York.

8 The new Board Members -- and I would like
9 to be the first to welcome them to our Board of Directors:

10 Lou Barbich of California;

11 Ellen Feaver, of Montana;

12 Curt Mingle of Illinois;

13 Tom Nelson of Utah;

14 And these terms end in 1995, by the way;

15 And Eric Schindler of Washington.

16 For the two-year terms ending in '94:

17 Bob Mednick of Illinois;

18 And you should know that Jake Netterville
19 has asked Bob to serve as Chairman of the Finance Committee.
20 So Bob will do that. In his other life on the Board of
21 Directors of the AICPA he had the same position. He preceded
22 me.

23 And Tom Jordan of Michigan, term ending in
24 '94.

25 And then for a one-year term ending in '93:

2 Charlie Keller of Maryland;

3 And Ken Hull of Illinois.

4 So, welcome all.

5 Before we get into the Sells Award, the CPA
6 examination award winners, if I could just take about two or
7 three minutes just to share some thoughts with you.

8 I have been proud to serve as the Chairman
9 of your Board of Directors.

10 And the staff and the people of the
11 Institute and the Chairmen who went before me, especially Tom
12 Rimerman who is my immediate predecessor, and the one that
13 will follow me, Jake Netterville, are special people.

14 That seems to have been the trend in the
15 Institute over its hundred and five years, that the Chairmen
16 seem to be those kind of individuals.

17 What have I seen?

18 Some of this you have heard today because
19 they're continuing themes and we're all part of the
20 continuum.

21 But the out-of-control tort system in this
22 country and the strong willingness by that system to blame
23 the auditor for everything is our number one issue, as Jake
24 said.

25 And I've been pleased with the progress

1

2 that we've made. At least we now have, I think, people
3 understanding the issue. They understand what's happening.

4 And we have legislation initiated in the
5 Congress and we have many activities underway in the States
6 to attack the matter.

7 Second, I've seen our Board, our State
8 Societies and our Members better understand the strength of
9 our membership, that membership retention and recruitment is
10 vital.

11 As I said in San Francisco, and I'll repeat
12 it here, every CPA in America should be a member of the AICPA
13 and of his or her State Society.

14 Next, I've seen a leap forward in dealing
15 with women and family issues in the Institute. And I've seen
16 progress in how we are going to be able to attract minorities
17 into the profession.

18 I witnessed final completion of the Uniform
19 Act of Accountancy, an act which now has some liability
20 limiting provisions in it.

21 But now the real work begins. We have to
22 implement that Act in fifty-four jurisdictions and that's
23 tough.

24 And after seven years of hard work on the
25 part of many of us, the Institute staff has consummated a

2 move to New Jersey. And that will enhance service to you and
3 control the costs for the future so that we can keep that
4 everlasting dues issue as controlled as we can.

5 I have attended many State Society
6 meetings. I've attended many Institute meetings. I have
7 talked with many members over this past year. And my
8 reception has been very warm.

9 CPAs care about their profession and I
10 think that is so important.

11 So as I leave the Chairmanship in the
12 hundred and five-year continuum, I thank you.

13 And I know that you will support Jake
14 Netterville to the same extent that you've supported me.

15 So thank you very much.

16 (Applause.)

17 CHAIRMAN POLANSKY: Thank you.

18 Now, it's my real pleasure to participate
19 in the award of the Elijah Watt Sells medals to the winners.

20 Indeed, we have a number of them, in fact,
21 perhaps all of them with us today.

22 I would ask that the winners come up as
23 their names are called and remain here with me until we have
24 recognized all of them and then we can applaud them all
25 together. So if you would hold your applause until they have

2 all been up here.

3 First, the winner of the Sells Gold Medal
4 for the highest grade total on the November 1991 exam is Chad
5 Michael Koehler of Wisconsin.

6 Chad.

7 (Applause.)

8 CHAIRMAN POLANSKY: You will notice that
9 in the front of each of your places there is a little bio on
10 each person.

11 Chad, congratulations.

12 Chad is a Wisconsin graduate, The
13 University of Wisconsin, Madison. He graduated a little later
14 from that school than I did. But I'm delighted that I'm able
15 to give an award to a fellow Wisconsinite.

16 Chad, if you will stay up here with us. .

17 We're privileged also to have Mary
18 Emmerling of Maryland, winner of the Sells Gold Medal for the
19 highest grade total on the May 1992 exam.

20 Mary.

21 (Applause.)

22 CHAIRMAN POLANSKY: Next, Mary Joan
23 Selberg, also of Wisconsin.

24 Boy, they raise bright people out there,
25 don't they?

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2

(Laughter.)

3

4

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CHAIRMAN POLANSKY: She is the winner of the Sells Silver Medal for the second highest grade total on the November 1991 exam.

6

(Applause.)

7

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CHAIRMAN POLANSKY: I'm proud of my State today.

9

10

For the Sells Silver Medal for the May 1992 exam we have Eric Theodore Langmack of Iowa.

11

(Applause.)

12

13

14

CHAIRMAN POLANSKY: Now, the Sells Bronze Medal has been awarded to two candidates achieving the third highest grade totals.

15

16

The winners for the November 1991 exam were David Crofoot of Florida and Robert Tesch, Jr. of New Mexico.

17

(Applause.)

18

19

20

CHAIRMAN POLANSKY: And last, but certainly not least, Raymond Tierney of Illinois, Bronze Medal.

21

(Applause.)

22

23

CHAIRMAN POLANSKY: Let's give them all a big final hand.

24

(Applause.)

25

CHAIRMAN POLANSKY: It's one of the most

2 pleasurable duties a Chairman can preside over, to see such
3 capable young people entering our profession.

4 Next, the Gold Medal Award.

5 The Gold Medal is the highest honor
6 bestowed on a member whose influence on the profession as a
7 whole is distinguished when compared with other contemporary
8 leaders.

9 It was in 1944 that the Institute
10 established the Gold Medal for Distinguished Service to the
11 Profession, and several members who have achieved this honor
12 are in the audience.

13 We'd like to recognize those members at
14 this time and ask them to stand and remain standing, and we
15 ask you to hold your applause until we have introduced all of
16 them.

17 Sam Derieux, 1978.

18 Stan Scott, 1979.

19 Rholan Larson, 1985.

20 Rholan was here. Oh, there he is. There he
21 is.

22 1987, Bob Ellyson.

23 And John Meinert. There's John, back there.

24 And in 1990, a man that we acclaimed this
25 morning, our retiring Deputy Chairman, B. Z. Lee.

2 Thank you.

3 (Applause.)

4 CHAIRMAN POLANSKY: Now I'd like to
5 introduce a favorite person of mine, a good friend, a long
6 time friend, a man that I first met on the Michigan State
7 campus many, many years ago.

8 James Don Edwards is completing a three-
9 year term as Chairman of the Awards Committee and will make
10 the presentation of this year's Gold Medal.

11 MR. JAMES DON EDWARDS: Thank you very
12 much, Mr. Chairman.

13 It is a singularly distinct honor to be
14 here this afternoon representing the Awards Committee and
15 every member of the American Institute of Certified Public
16 Accountants.

17 We in the period of a lifetime serving our
18 profession have the opportunity to know and to learn and to
19 respect individuals that have made distinguished
20 contributions to our profession.

21 The recipient of the award this year is a
22 person who became a CPA in Larimer, Colorado. He was the only
23 CPA in that county. He moved down the hill to Colorado
24 Springs to establish his firm, practices there today as a
25 senior partner of a public accounting firm in Colorado

2 Springs.

3 He has served as President of the Colorado
4 Society of CPAs.

5 He is Chairman of the State Board of
6 Accountancy in Colorado.

7 He has served as Chairman of the Board of
8 the American Institute of Certified Public Accountants.

9 The year in which he served as Chairman of
10 the Board of the American Institute of Certified Public
11 Accountants we were having a particularly exciting year in
12 negotiating an agreement with the Federal Trade Commission
13 regarding our rules of professional conduct.

14 In addition to that, one of his crowning
15 achievements was to serve in the implementation of the
16 Anderson Committee and the restructuring of the American
17 Institute of Certified Public Accountants and in the
18 communication of the need for the passage of those
19 requirements with our membership throughout the United
20 States.

21 All of those recommendations were approved
22 overwhelmingly.

23 It is with great pleasure that we recognize
24 here this afternoon one of our own who has made a
25 distinguished contribution to our profession, one which has

2 covered more than twenty-five years of continuous service on
3 committees and activities of the American Institute of
4 Certified Public Accountants.

5 We would like to recognize that person, A.
6 Marvin Strait.

7 (Applause.)

8 MR. JAMES DON EDWARDS: Marvin, it's clear
9 from the reception of your professional colleagues that they
10 too agree that we have made the correct choice.

11 May we present to you the Gold Medal Award
12 for Distinguished Service to the Accounting Profession.

13 You may not read that this afternoon.

14 And, in addition, we would like to submit
15 to you the real, honest to goodness, Gold Medal, those of you
16 who have seen it.

17 We congratulate you, sir.

18 (Applause.)

19 MR. A. MARVIN STRAIT: This is a -- I know
20 this is hard to believe, but it leaves me -- if this were
21 done on a surprise basis, I guess we'd have a full "code
22 blue."

23 (Laughter.)

24 MR. A. MARVIN STRAIT: I look at the Gold
25 Medal and I wonder about some of the recent Olympics where

2 people sought and fought so hard for the Gold Medal.

3 And I thought, for instance, of the volley
4 ball team. They didn't get a gold medal like this. But they
5 had other rewards. Their hair grew back.

6 (Laughter.)

7 MR. A. MARVIN STRAIT: But I also know
8 that for the athletes, at least, winning a gold medal was
9 very lucrative in terms of endorsements.

10 I have yet to be contacted to have my
11 picture on a box of Wheaties.

12 (Laughter.)

13 MR. A. MARVIN STRAIT: But my real dream
14 is to maybe endorse some athletic shoes. Can you believe Air
15 Marvin?

16 (Laughter.)

17 MR. A. MARVIN STRAIT: Seriously, I do
18 feel very humble. Although obviously it was not a surprise,
19 when you are up here, you just have a feeling of deep
20 gratitude. It's really sort of overwhelming.

21 I want to assure all of you that when I
22 first started the accounting practice in Larimer, it would
23 have been an understatement to say that such a tribute from
24 my profession would ever even be conceivable.

25 Back in those days, most of my hopes and

2 dreams had to do with survival.

3 When I consider the many leaders of our
4 profession who received this award, some of them were
5 introduced just a few moments ago, when I received so many --
6 when I consider so many people out there who have been
7 leaders in our profession and clearly deserving of this
8 award, I feel humble, indeed, to have it granted to me.

9 I can only come to one inescapable
10 conclusion. I'm not sure I deserve to receive all this, but I
11 certainly will take it.

12 (Laughter.)

13 MR. A. MARVIN STRAIT: As with these kind
14 of awards, there are some special thank you's.

15 First of all, of course, thank you to the
16 Awards Committee.

17 Again, I very much appreciate the kind
18 words of the Committee and the many things that were said and
19 their considerations.

20 Also, of course, this whole profession.
21 This profession has been very good to me, for my life, and I
22 have met -- the whole profession is a class act, the many
23 people I have worked with and talked to, and we have
24 accomplished so many thing together.

25 It makes me indeed grateful.

2 Obviously, in the Institute there are some
3 people that are involved in the professional staff -- Phil
4 and Don, B. Z. Lee, are all good friends and I owe them a
5 lot.

6 I also, of course, have to thank my
7 partners. As Jake said today, you have to go back and
8 introduce yourself once in a while and let them know you are
9 still around.

10 I always try to make it to the partners
11 meeting when they divide the pie and things like that.

12 (Laughter.)

13 MR. A. MARVIN STRAIT: And, finally and
14 most importantly, my family.

15 I have one daughter here who is a -- for
16 those who are from New England, she is a lawyer in Boston.

17 Denise, would you stand up.

18 (Applause.)

19 MR. A. MARVIN STRAIT: And then, of
20 course, my wife, Shirley. As everyone knows, Shirley is my
21 childhood sweetheart.

22 (Applause.)

23 MR. A. MARVIN STRAIT: And I just owe
24 about everything I have to Shirley.

25 It's traditional for the winner of the

2 Award to have a few comments to make. And this is, as I see
3 it, my last great chance to share some gems of wisdom.

4 And I think it would be appropriate to talk
5 a little bit about the future of the profession, as we see
6 it, and make some comments and perhaps even say some things
7 that some people might call controversial; perhaps could be,
8 but at least I will not take a lot of your time.

9 But let me share some thoughts.

10 This goes to the basis of our license as
11 CPAs.

12 The basis, of course, is that it's -- the
13 thing of it is -- our monopoly, our franchise, is the
14 attestation of financial statements in accordance with
15 Generally Accepted Accounting Principles, historic cost.

16 And it's a license. It's a protected
17 monopoly. It is served by fifty-four independent State Boards
18 and it served us well for one hundred years.

19 But we're undergoing significant change and
20 there could be some paradigm shifts.

21 And nothing is forever. We had --
22 Studebaker at one time was the world's greatest wagon
23 manufacturer.

24 Or a Xerox.

25 If they would have stuck to their one

2 product when they first invented that wonderful product,
3 where would they be now?

4 It just happens, as we know, that GAAP
5 financial statements are not as meaningful or as relevant or
6 as beneficial as they were once.

7 More business decisions, more of all types
8 of decisions, are based on a lot of data other than the kind
9 of reports that we are licensed for.

10 Tom Rimerman appointed a Committee last
11 year who are looking at the financial reporting to address
12 the disparity between content and need.

13 And it -- I would say it's a major issue in
14 our profession. This is our primary product. This is what
15 we're tied to.

16 And yet we are clearly recognizing that the
17 GAAP financial statement, historic cost kind of financial
18 statement, is becoming less and less relevant.

19 And we also know that our skills and
20 abilities are needed in many areas other than just auditing
21 and producing statements.

22 We find that this is becoming a more
23 complex world and our ability to work with these complex
24 concepts and do the accounting and make sense out of them is
25 in greater need. So there is a high demand.

2 We find that a number of firms continue to
3 grow that do no audits at all. And we find as a profession
4 that we are devoting more of our time to other services and
5 less to audit.

6 There is a message in all this as I see it,
7 and that is that our license is becoming less meaningful and
8 yet we are tied to it. That's the basis for our whole
9 licensing process.

10 We must be careful. We must be careful that
11 as a profession we do not go the way of the GAAP financial
12 statement so that, in fact, as it becomes less and less
13 meaningful so that we -- in this information age there should
14 remain a premium for information professionals.

15 And we are the premium information
16 professionals today. We should structure ourselves and think
17 of ourselves in that manner.

18 You know, there is the old story about the
19 railroads. The question was, if the railroads would have,
20 back a hundred years ago, assumed they were in the
21 transportation business rather than the railroad business,
22 what kind of a different world would we have today.

23 Certainly in terms of those companies and
24 in terms of our whole transportation system it might have
25 been significantly different.

2 With that in mind, I would at least propose
3 that we consider some -- working towards some changes.

4 They can't be overnight and it will be
5 difficult, but I at least want to propose them.

6 The first one is, we consider giving up our
7 monopoly, the monopoly on issuing audit opinions on GAAP
8 financial statements.

9 That doesn't mean we give up doing it. It
10 just means that maybe we don't need the protection of the
11 law. We are clearly established in that way. We intend to
12 stay that way. We are expected and known. Maybe we don't need
13 the franchise, the government-protected monopoly for that.

14 And the reason for doing that is a couple
15 of things.

16 First of all, I think it gets us into a .
17 position we are not just tied to and thought about as that
18 being what we are, as just professionals in issuing opinions
19 on those kinds of statements.

20 We can then be thought of more in terms of
21 certified information professionals. I understand that the
22 letters don't match, but that would be more the case.

23 We should -- there will be a demand for a
24 credibility of all the information that is coming out, not
25 just historic GAAP statements.

2 And I think we could, if we again remove
3 this monopoly, we could move into a situation where we were
4 the primary attestors to many things and it's just not tied
5 to that nor would the exam nor would many of the
6 qualifications be tied to that.

7 In return for offering this, I think we
8 should get something back. That would be we would ask the
9 States, the State Boards, to protect the CPA designation.
10 That's very valuable and we would ask to be protected, but
11 that the actual designation or granting of the degree could
12 be by national organization. In this case I would suggest
13 that be the AICPA.

14 And the AICPA could award the certificate
15 and the certificate be awarded in many areas in which our
16 profession is becoming known, whether it be in tax, whether
17 it be in computers only, whether it be in management
18 reporting, of course, auditing and different kinds of
19 attesting.

20 It would be very similar to the medical
21 profession where the private profession awards the
22 specialties and the State would protect the designation of
23 CPA, which is, of course, what we want to protect.

24 I realize this is a -- pretty far out and
25 it has been a matter of concern to me for many years because

2 I am -- in watching where the world is moving to, I will tell
3 you that if we are tied to one product and we continue to be
4 tied to one product as our entire licensing function, we
5 could suffer the problems that that one product suffers.

6 And so I offer this as a suggestion.

7 Finally, and I don't want to take any more
8 time, I want to again thank everybody and particularly for
9 this Gold Medal. I now hope if I get a negative report on my
10 steroids tests, I can keep it.

11 Thank you.

12 (Applause.)

13 CHAIRMAN POLANSKY: Let's move on now to
14 the report of the auditors.

15 Thank you very much, Marvin.

16 That's a well-deserved award. What an
17 outstanding professional and Chairman of the Board he was and
18 is.

19 Thank you, Marvin.

20 This year, J. H. Cohn & Co. have completed
21 their fifth year as independent auditors and I am pleased to
22 introduce Dan Davitt who will present the auditor's report.

23 Dan.

24 MR. DAN DAVITT: Thank you, Mr. Chairman.

25 Good afternoon, ladies and gentlemen.

2 On behalf of the members of my firm I would
3 like to present the Institute's 1992 Annual Report.

4 I have to tell you I feel a lot better
5 making this presentation this year. It's my second one. Last
6 year I also made the presentation in San Francisco. And my
7 senior partner informed me five minutes before the
8 presentation that I was going to be giving it. Needless to
9 say, if it weren't for speaking at that stage, I threw up for
10 the next five minutes. Today I feel a lot better.

11 I would like to reiterate something that
12 Phil said earlier this morning, which is, I advise also all
13 the members to read the full Annual Report so everybody can a
14 better feel for the breadth of the organization's activities
15 and operations.

16 Relative to the financial statements
17 themselves this year, it's readily apparent in looking at the
18 financial statements how the relocation impacted the
19 Institute's bottom line in financial statement disclosures.

20 One of the things I would also point out to
21 you in reviewing those financial statements is the turn-
22 around the Institute had in reducing costs and generating
23 cash flow from operating activities over the year before, a
24 dramatic turn-around.

25 The relocation also impacted us in doing

2 our audit because we were doing audits in both locations,
3 both in New York and New Jersey.

4 So we did have some logistical problems
5 depending on where the files were.

6 And also we had a lot of contract review
7 and document examination and accounting research to do.

8 I would like to take this time to commend
9 the Institute and all the members of the Institute on the
10 fine job they did in managing the move and going through with
11 boxes coming and going and files upside down. I think, all in
12 all, they did a very good job and it went smoothly.

13 Also, in conclusion, I would like to thank
14 the Institute and the Board of Directors, Council and the
15 members, for once again allowing our firm to serve the
16 organization.

17 If anybody has any questions at this time,
18 I'll take them gladly. You can pass around index cards as you
19 did for Dr. Wattenberg.

20 CHAIRMAN POLANSKY: Thank you, Dan.

21 I trust there are no questions even over
22 the \$6 million charge on the relocation.

23 (No response.)

24 CHAIRMAN POLANSKY: Thank you.

25 It had to happen on my watch, didn't it?

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(Laughter.)

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CHAIRMAN POLANSKY: Now, I'd like to introduce to you someone who doesn't need an introduction because we all know him. He really seems like he's a part of our profession because he really is.

7

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Al Sommer, Chairman of the Public Oversight Board, and a partner in the law firm of Morgan, Lewis and Bockius. So, Al, welcome to the 1992 Annual Meeting of the AICPA.

11

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(Applause.)

MR. SOMMER: Ladies and gentlemen, I will try not to interfere with the early -- early close that Gerry promised you for the meeting today.

15

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18

It's always a pleasure for me to appear at these meetings. I see a lot of old friends who haven't aged at all and they are always good enough to tell me I haven't aged either.

19

20

And those are true facts as Ben Wattenberg says.

21

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24

I want to congratulate Gerry on the completion of a very successful term. I know well the work he has done and the dedication he has shown. And I congratulate him.

25

It's always an honor to people who are

2 right down the street from someone when they are honored, and
3 I felt honored by his presence as the Chairman of the
4 Institute.

5 And I congratulate Jake. It came as a
6 surprise to me. Monday Lowe said to me the only important
7 accountant in Louisiana was Monday Lowe.

8 (Laughter.)

9 MR. SOMMER: So perhaps it's a
10 generational sort of thing.

11 That might have been true in the past.

12 And I congratulate Jake on his new status.

13 And I also want to congratulate most
14 warmly, an old friend, Marvin Strait. I can think of no one
15 more deserving of the Gold Medal than Marvin.

16 I have known him a long time and he is the
17 epitomization of all that is good about the accounting
18 profession.

19 I am going to be very brief -- try to be
20 brief today.

21 Obviously, the problem that is in the
22 forefront of everyone today, Jake referred to it at length at
23 lunch today, is the problem of liability.

24 We were asked some months ago by the
25 leadership of your profession to join them in the effort to

2 secure remedial legislation to reduce the negative impact of
3 liability and litigation upon this profession.

4 The liability as a problem is not confined
5 to the accounting profession. However, because of the rather
6 singular position that this profession occupies in the
7 financial affairs of this country, I think the accounting
8 profession is probably impacted more directly and more
9 severely than any other element of the economy.

10 We stated at that time to the leadership
11 that we would be pleased to undertake an effort on behalf of
12 the reform of litigation, liability reform, if we could
13 conclude that indeed there was a public interest that was
14 involved.

15 And we studied this question very
16 intensely.

17 We are concerned with the economic welfare
18 of the profession. But we did not think that our
19 consideration should be based upon that. We felt that the
20 public interest was the central question that we, as an
21 independent body, should address.

22 The Board has spent a tremendous amount of
23 time exploring that question. We spent two-and-a-half days at
24 Earle House in late June looking at this question.

25 And after a great deal of deliberation and

2 very careful consideration and the seeking of advice from
3 many quarters, we have concluded that we will assist in this
4 effort to secure liability reform.

5 The reasons that we came to the conclusion
6 were in many cases stated by Jake at lunch.

7 There is a serious danger, we think, that
8 the burden of litigation may be responsible for the failure
9 of one or more of the major firms in this country.

10 Already it has been responsible for the
11 tragic failure of one of the larger firms with a great deal
12 of human tragedy and human hardship following from that.

13 We think that the failure of one or more of
14 the major firms would result in a gigantic and not
15 necessarily good restructuring of the profession.

16 It would have an adverse impact upon the
17 integrity and the reputation of the profession throughout the
18 world.

19 It would adversely affect the clients of
20 whatever firm failed in satisfying their disclosure
21 requirements. It would just have a tremendous impact.

22 And we think that would be harmful to the
23 public interest.

24 We find that there is anecdotal, though not
25 systematic, evidence of difficulties in recruiting. Although

2 I must say, as I looked at these recipients of the Elijah
3 Watt Sells Award today, it seems to me that some awfully good
4 people are coming into this profession.

5 We find evidence that firms are unwilling
6 in many circumstances to undertake the audits of risky
7 companies, new ventures, just exactly the sort of companies
8 that we need in this country if we are to find the jobs that
9 are necessary in the future.

10 The stultifying effect of this whole
11 litigation scene upon the profession has resulted in an
12 unwillingness for them to take on new responsibilities and
13 new activities which properly should accrue to them.

14 And it seems to me that the overwhelming
15 evidence is that there is a tremendous number of negative
16 consequences that adversely affect the public interest if we
17 fail to have some sort of reform.

18 In my estimation though the most compelling
19 argument is one of fairness.

20 At the meeting of the American Accounting
21 Association I alluded to this and I said the Board believes
22 that a person, a body, an entity should be accountable for
23 its conduct. By the same token it should not be accountable
24 for someone else's conduct.

25 The fault in our litigation system today as

2 it affects auditors is that too often they are held
3 accountable for someone else's failures and shortcomings and
4 accountability faults.

5 Auditors, as I've indicated earlier, should
6 be accountable for the harm caused when they fail to meet
7 their responsibilities, but they should not be accountable
8 for the frauds, the failures, the shortcomings of others, and
9 yes, the failures of government policies.

10 My own experience as an expert witness in
11 many cases indicates to me that auditors are not properly or
12 appropriately named but are simply automatically included
13 among the defendants.

14 The reviews that are conducted by QCIC task
15 forces under our supervision and oversight indicate the same
16 thing although I must say, in fairness, we get some sniffs
17 sometimes that there has been bad auditing work done, even
18 though our role is not to identify such instances. But
19 nonetheless we think they occur.

20 I don't think any of us should be sanguine
21 or underestimate the difficulty of the battle that lies ahead
22 in getting litigation reform.

23 Efforts have been made in that direction
24 time and again in the past. There are powerful forces that
25 will oppose it.

2 And I think the profession should be
3 prepared for the disappointment of not securing it and think
4 beyond this question and think of other issues that are
5 affecting the profession.

6 You're going to have tremendous opposition
7 from trial lawyers and they are a powerful force.

8 You're going to have difficulty convincing
9 Congress that a profession in which the major firms
10 repeatedly brag about their growth and their performance and
11 their economic prosperity are really in need of relief.

12 You're going to have thrown at you the fact
13 that there have been some favorable cases recently in favor
14 of the defendants.

15 And you're going to have the fact that
16 Congress has a certain bias in favor of the activities of
17 other governmental entities and a lot of the litigation in
18 recent times has come from the RTC and the OTS and the FDIC
19 and other government entities.

20 And the evidence of that hesitancy to
21 reform in the face of their activity was seen when there was
22 a brouhaha recently over the assertion that Al Casey was
23 cutting back on the number of lawyers in his agency which
24 might reduce the incidence of litigation to recover for harms
25 that were done to savings and loans.

2 And, finally, only about ten percent of the
3 litigation is going to be affected if you get reform at the
4 Federal level because that is the estimate of the Big 6
5 leadership with regard to the number of cases in which
6 Federal legislation -- Federal rules are the only issue
7 that's before the court.

8 It seems to me that you've got to recognize
9 that there are other issues that confront the profession and
10 you have to be prepared for the possibility that you must do
11 something about those regardless of the outcome of the
12 litigation problem.

13 One thing I urge is that there be
14 considerable attention to the possibility of incorporation.

15 It is absolutely absurd to me that a form
16 of doing business that was appropriate when partnerships
17 consisted of eight or ten people, all of whom knew each
18 other, had confidence in each other's integrity and
19 competence, is still being imposed upon your profession, and
20 upon mine, when you have firms with two thousand partners and
21 the fortunes, the fame, the future, the families, the
22 retirements of all those partners may be at the risk of the
23 dumbest, stupidest, most incompetent and least qualified
24 person in the firm.

25 It just seems to me that is not good sense.

2 And it seems to me that that is an area
3 that ought to be explored and we are going to discuss this in
4 the report the Board is preparing.

5 It seems to me that some sort of Federal
6 preemption perhaps should be considered as a possibility in
7 that area.

8 But if you get this remedial legislation,
9 you are still going to be left with a group of problems that
10 are significant problems.

11 Your auditors are still going to be named
12 as defendants in a lot of lawsuits because, while the pockets
13 may not be quite as deep, they will be deep enough to make it
14 worthwhile for plaintiffs' attorneys to go after the
15 auditors.

16 The public is still going to assume that
17 when an auditor is sued that is tantamount to a proof of
18 guilt.

19 Auditors are still going to have to defend
20 their conduct. They're still going to be an expectation gap
21 and public confidence is still going to have to be merited.

22 And those problems are not going to be
23 solved by litigation reform.

24 It seems to me that there are a number of
25 other measures that the profession should be considering. And

2 without suggesting that the Board has endorsed all of these,
3 I think they would probably support me in setting forth just
4 a few of the items we think should be considered.

5 First of all, we are disappointed nothing
6 has been done with regard to the ASEC proposal on risks and
7 uncertainties.

8 It seems to me a great deal would accrue to
9 the benefit of the profession if they had the tool of a
10 strong statement with regard to risks and uncertainties in
11 their arsenal so that they would be in a position where they
12 could press the clients to make fuller disclosure with regard
13 to that.

14 Secondly -- I hear rumors, incidently, that
15 that project may perish. And if that happens, I think that's
16 a major set back for the profession.

17 Secondly, I think there is a great problem
18 with communications. I think the average person looking at
19 financial statements today thinks that every figure in that
20 statement is as hard as the cash figure, is as hard as the
21 revenue figure which, as we know, is not necessarily very
22 hard sometimes.

23 But, nonetheless, I think there is a
24 necessity to communicate the varying degrees of reliability
25 of information that is contained in financial statements.

2 The standard form of opinion simply doesn't
3 do that and I, for one, was very disappointed that as a
4 result of the initiative of the Cohen Commission so little
5 was done to change the form of the report.

6 Thirdly, I think that you are going to
7 find, and Marvin referred to the changing role of the
8 profession, I think that you are going to have to recognize
9 that the auditor is going to be the core -- the element, the
10 core player, ensuring the financial integrity of
11 corporations.

12 That means more than simply signing an
13 opinion that they have been prepared in accordance of
14 Generally Accepted Accounting Principles.

15 It's going to mean accepting the necessity
16 of taking the responsibility for reviewing and opining upon
17 internal controls. That is coming as sure as God made green
18 apples.

19 It may necessitate the association with
20 non-quantitative information to a greater extent than is
21 presently done.

22 It may require acquiescence in the idea
23 that under extreme circumstances the auditor has a
24 responsibility to inform authorities with regard to
25 wrongdoing by clients.

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2 Those are hard pills to swallow, but I
3 think they will flow inevitably from the fact that
4 increasingly the auditor, to justify its existence, to
5 satisfy public expectations, is going to have to be, not the
6 insurer, but is going to have to be in large measure the
7 assurer of the financial integrity of corporations in which
8 it serves as auditor.

9 Just a couple of words with regard to more
10 mundane things, if you will.

11 As you know, in 1990 the Association
12 adopted -- the Executive Committee of the SECPS adopted a
13 rule requiring that any firm that had AICPA members and had
14 public clients had to enlist in the SEC Practice Section.

15 That resulted in, I think, more than a
16 doubling of the number of members in the Section and made it
17 something of a case of indigestion in handling the peer
18 reviews.

19 The peer reviews have been digested and
20 they have been handled efficiently.

21 We utilize something like, I think, seven
22 part-time reviewers who are very carefully trained in various
23 parts of the country to help us deal with that bulge that
24 resulted from that rule change.

25 I think the rule change provided empirical

2 evidence of the value of the peer review. Of those new
3 members who came in, twenty-five percent of them received on
4 their initial peer review modified or negative opinions.

5 In other words, there were serious
6 deficiencies in their quality controls or their compliance
7 with them.

8 Subsequently, ever since the inception of
9 the program, the second and subsequent reviews have a
10 qualified or negative rate of about seven percent.

11 So I think you can see the value of the
12 peer review in upgrading the quality controls and compliance
13 with them.

14 Of the engagements that were examined in
15 the initial reviews, 5.4, in other words roughly one out of
16 twenty, were found to be deficient.

17 And in subsequent reviews that figure is
18 about 1.5 percent, fifteen out of a thousand.

19 This underscores clearly the value of this
20 program in upgrading the quality controls and the performance
21 of the accounting profession.

22 But 1.5 percent is not good enough. The
23 goal of the profession must be zero defect. It must be -- the
24 goal must be to achieve a degree and a magnitude of
25 perfection that perhaps seems unattainable, but there must be

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2 a constant striving for it.

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And that goal is not going to be reached simply through limitation on liability.

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It's going to be reached by reforms that are within the reach and the control of this profession and the Institute.

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One last word.

We were very proud this year to be able to give our McClure Award to Barbara Franklin, who is now Secretary of Commerce. I am proud to say that we selected her before the President selected her to be the Secretary of Commerce.

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This is one case in which we felt President Bush had a very good judgment, just as we had.

Barbara, as you may know, was a member of the Board of the AICPA for several years, I think two or three terms, and she was also Chairman of the Audit Committee.

20

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She is an outstanding person and richly deserved the award. It was the first time we made the award to someone who is a non-accountant.

23

24

I have to tell you very quickly that the night of the dinner honoring her was in January.

25

We were going to have a nice dinner for her

2 at the Metropolitan Club, and Gerry was among the invitees
3 among a number of high officials in the Association and of
4 the government, the Commissioners of the SEC, GAO, a number
5 of prominent people.

6 Cocktails were to begin a 6:30 o'clock.

7 And at 6:00 o'clock Commissioner Mary
8 Shapiro of the SEC called me and she said, "Al, is the dinner
9 still on?"

10 And I said, "Mary, why should it not be?"

11 She said that entire part of Washington
12 where the Metropolitan Club is is in total darkness.

13 With my heart in my throat I raced to the
14 Metropolitan Club and, indeed, it was true. It was in total
15 darkness except for a few candles.

16 The manager said, Mr. Sommer, we can give
17 you cold hors d'oeuvres and drinks on the second floor but
18 that is it. We have not cooked the dinner.

19 I said, "Okay, so be it. We will have
20 honorary canapes and honorary drinks in honor of Barbara
21 Franklin who by that time had been appointed Secretary of
22 Commerce."

23 Five minutes later he came up to me and
24 said we have been in contact with the Hay Adams Hotel, which
25 is two blocks down the street. They have power and we are

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2 transferring your dinner down there.

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4 We took all of our guests down to the Hay
5 Adams, had our dinner, after a long cocktail party I should
6 add which added to the gaiety of the occasion.

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(Laughter.)

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8 MR. SOMMER: They took the food from the
9 Metropolitan Club, wheeled it on carts -- wheeled it manually
10 on carts through the streets of Washington, the darkened
11 streets of Washington, with one of the Assistant Managers of
12 the Metropolitan Club with a flashlight stopping traffic when
13 they came to an intersection.

13

14 They brought the chef down from the
15 Metropolitan Club. He cooked a beautiful lamb dinner there on
16 the stoves at the Hay Adams and we had the dinner and we
17 honored Barbara Franklin in an appropriate fashion.

17

18 That was, I would have to say, one of the
19 high points on the Board this year both from the standpoint
20 of stress and achievement.

20

21 Thank you all for letting me appear here.

21

(Applause.)

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23 CHAIRMAN POLANSKY: Al, thank you very
24 much.

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25 The evening, as he described it, was
exactly that way. It was -- to have Washington dark was

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incredible.

Are there any other questions or issues to
come before the Annual Meeting?

(No response.)

CHAIRMAN POLANSKY: We had to cut short
the open forum briefly this morning to get on to lunch.

But are there any issues or questions to
come before the group?

(No response.)

CHAIRMAN POLANSKY: Okay.

Well, hearing none, the 105th Annual
Meeting of the AICPA is hereby adjourned.

Thank you very much.

(Applause.)


(Which were all the proceedings at the
105th Annual Meeting of the AICPA which concluded at 3:45
o'clock p.m.)

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10 I, ROY A. SELENSKE, a Certified Shorthand
11 (Stenotype) Reporter and Notary Public within
12 and for the State of New York, do hereby certify
13 that the foregoing pages 1 through 42, taken at
14 the time and place aforesaid, is a true and
15 correct transcription of my shorthand notes.

16 IN WITNESS WHEREOF, I have hereunto set my
17 name this 19th day of October, 1992.
18
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21 
22 ROY A. SELENSKE, C.S.R.
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