1977

People in H&S: Edward J. Lill

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The days of tedious detail work are gone. Trying to compare accounting for the securities brokerage industry today with what it was only a few years ago is like talking about flying the Concorde compared with a DC-3," Ed Lill, the Firm's brokerage industry specialist and national industry director, said recently.

"There's been a revolution in securities brokerage, a revolution that's still taking place. And this has affected our professional relationship with brokerage clients. Perhaps most important from the point of view of the staff accountant considering making a specialty of securities brokerage, the change has been largely to the good. Some of the most onerous requirements have been eliminated, and the brokerage industry's strong move toward automation and diversification has added new dimensions to the services we provide for them. To put it simply: the industry is a lot more interesting today than it was when I was assigned to my first brokerage engagement."

But if Ed's entry into the world of securities brokerage eventually proved the ideal mating of man and career, its beginnings were dictated more by chance than calculated decision.

Edward J. Lill was born in Paterson, New Jersey and graduated from Passaic Valley High School before entering Seton Hall University in South Orange. An excellent student who majored in accounting, Ed was elected to the Cross and Crescent, a highly select honor society recognizing outstanding achievement in both academic and extracurricular activities.

More interested in private industry than public accounting when he graduated from Seton Hall (or so he thought at the time), Ed joined an advanced technology corporation as a cost analyst. Before the end of that first summer, however, he reevaluated his career goals and decided that public accounting was the road he really wanted to follow.

After interviews with several of the large CPA firms, Ed joined the New York office of Haskins & Sells in September 1953. Ed's early years with the Firm gave him an aspizationn area as securities brokerage.

"My first years with the New York office gave me the kind of grounding in my profession that any career-minded accountant really needs," he said. "I was assigned to engagements for a producer and distributor of frozen foods, Seabrook Farms; a large educational institution, New York University; a hospital, Cornell Medical Center; a nonprofit organization, the Marine Historical Association; and a large chemicals manufacturer. Such broad experience is valuable from at least two points of view. In the first place, it gives an accountant increased proficiency in many of the techniques of his profession. You just naturally become more self-confident when you can handle responsibilities on a variety of engagements. Secondly, and a point often overlooked, you can make a decision about specializing in an industry or a specific area of accounting with much more authority if you've been exposed to a range of experiences. You don't have to depend on someone telling you: 'Try it, you'll like it.' You have tried it and you know whether you like it."

It was while on the chemical company engagement that Ed met Dorothy Allen. "My work involved a division that was preparing to move from New York to Virginia," Ed recalls. "Dot was from Virginia and had been sent to New York for special training prior to the division's relocation. That was when I met her."

Dorothy returned to Virginia after her training was completed and Ed stayed in New York. About a year later, however, Ed was asked to spend six months in Virginia on the engagement. He said yes. Shortly after his second year on the engagement he asked Dorothy to marry him. She said yes.

It was New York partner Carl Sturgis who introduced Ed to the securities brokerage industry. "Carl asked me to be senior accountant on an engagement for a relatively small brokerage house. I found the work interesting and the fol-

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EDWARD J. LILL
lowing year I was assigned as the senior on a large brokerage engagement.

About a year later, at the age of twenty-six, Ed found himself senior in charge of some four hundred accountants assigned to an audit for Merrill Lynch. His relationship with the country's largest brokerage firm was long-lasting. Ed continued on the engagement as a manager and later, when admitted to the Firm in 1966, was named partner in charge of the engagement, a responsibility he held until 1971.

Ed Lill's quiet way of speaking and his unassuming manner tend to mask the position of acknowledged authority to which he has risen, both inside and outside the Firm. Haskins & Sells is generally recognized as the leader in securities-industry accounting, a reputation the Firm established at least three or four decades ago. Ed Lill has continued the tradition. He speaks of being called on for advice and consultation by high-ranking executives of the Securities and Exchange Commission, the New York Stock Exchange and the federal government. During the "paperwork crunch" of the late 1960s, even Cabinet-level officials sought his advice.

"The securities industry is one of the most closely regulated in this country," he said, "and a change in regulations can often have far-reaching implications. The regulatory agencies recognize this fact, as do the various exchanges. So it's certainly prudent for them to confer with representatives of the accounting profession when any changes are being contemplated. I think it fair to say that H&S has left its imprint on the overall character and operations of the securities brokerage industry in this country."

For Ed Lill, much of the fascination of his specialty has come from the rapid changes that have taken place within a brief period. "You could say that the image of accounting for the securities brokerage industry has not kept pace with reality," he asserts. "It's not hard to understand why a lot of accountants used to believe that the industry could be a dead end for any ambitious, career-minded professional. So much of what
we did was routine, often little more than performing counts, reconciling bank accounts or processing thousands of confirmations. Of course, regulations were different then. Audits had to be performed for a brokerage firm on a surprise basis. Counting the securities, requesting confirmations—all this frequently, if not usually, had to be done on the first weekend of the audit. Even worse, standard sampling techniques employed in auditing other industries were not permitted. We had to count everything, down to the last share. And we only had thirty days from the beginning of the audit to the submission of the final report. It wasn't unusual in those days to put together a team of more than two hundred people to perform audit counts and confirmation procedures over a three-day holiday weekend during the summer."

It is perhaps some measure of the man that Ed Lill realized soon after his introduction to the securities industry that because so much securities work is done in the summer, normally a quiet time for the accounting profession, any expertise he developed would make him more valuable to the Firm. "I decided that my value to Haskins & Sells would be enhanced if my services could be employed efficiently twelve months a year."

"On the positive side," he continued, "once you reached the senior level, you began receiving an amazing amount of administrative and related professional experience. There just aren't too many audits where you have to assume responsibility for more than one hundred staff accountants and see that their time is used efficiently. You must develop the ability to make decisions rapidly, decisions that can either save the client substantial amounts on costs or result in large numbers of staff accountants sitting idle while waiting for the next phase of the audit to begin. You learn to judge people accurately and quickly, to gauge their ability to handle an assignment. But in the long run, I believe the changes that have taken place make the securities brokerage industry not only more interesting—and less wearing—but nowenable it to offer an even broader variety of experience than do many other industries."

Ed points to a number of changes that have altered accounting's relationship to the securities brokerage industry. The first is the revision of SEC regulations, such as the elimination of the surprise-audit requirement, the extension of the time permitted for the preparation and submission of a report from thirty to sixty days, and, perhaps most important, the acceptability of using sampling techniques.

"What this has done is to bring accounting for securities brokers closer to the techniques generally employed with most other clients. A large part—perhaps even the biggest part—of the drudgery has become a thing of the past. And all these changes have come about quite recently."

"I think one of the problems, if that's the right word, is that not enough people are aware of the changes taking place in the securities brokerage industry. It's a very volatile industry, one marked by change, and our relationship to it must also change."

As examples, Ed points to two major developments of the recent past. The first is the so-called paperwork crunch of 1967 and 1968, when many brokers were simply unable to keep up with required recordkeeping. At that time, he said, providing people who could assist clients in processing their daily paperwork represented a large part of our services. Later, when the industry went into a sharp slump, we were heavily involved in acquisitions and mergers as the brokerage trade consolidated and contracted. "H&S not only assisted in these acquisitions and mergers," Ed noted, "but, at the request of the SEC and NYSE, we monitored the progress of the merged organizations during the integration period."

What about today? The word is diversification, according to the H&S specialist. "Many brokerage houses, recognizing the volatility of their business,
are diversifying in order to achieve more stability. For practical purposes, because of the tight regulation of the securities industry, the move toward diversification has been through holding companies. Obviously, diversification on the part of a client means more diversified experience for the accountant assigned to that engagement and, on occasion, requires specialists in other industries to become involved in serving our brokerage clients, as in the case of two recent acquisitions of insurance companies.

"Even the growth of new marketing techniques within the brokerage industry has worked to its advantage—and to the accounting profession's. About six years ago, for example, brokers began realizing the business potential of municipal investment trust funds. In simple terms, these are like mutual funds—an investor purchases units in the fund rather than the bonds themselves—except that they have tax-exempt status. We now have more than fifty-five such funds as clients, a development that I think can be credited largely to our relationship with the securities brokerage firms that sponsor the funds."

But if this move toward expansion into different fields is affecting the very structure of the brokerage industry, equally important are internal changes taking place now and likely in the future that will reshape the basic functioning of the brokerage system.

"One of the marked characteristics of the securities industry—at least up to now—has been what might be termed its fragmentation. You have listed and unlisted stock and various methods of clearing securities transactions depending on where the security is listed or where it is traded; you have commodity trading; you have exchanges on the west coast remaining open after trading ceases on the east coast.

"You could say that the securities industry is finally catching up with the twentieth century as far as tools and techniques are concerned. Right now, for example, public hearings are being held on the formation of a National Securities Clearance Corporation. The NSCC was basically conceived of as a national integrated securities clearance system to provide for a centralized clearance of securities transactions, regardless of where listed or where traded. The new corporation will have a board of directors comprised of users (brokers) as well as representatives of the various exchanges. I think we'll see establishment of the NSCC within the next year.

"The industry also is moving quickly toward a consolidation of its trading functions. In effect, all aspects of trading will be centralized and tied in to a national computerized system. The centralization of the clearing and trading functions will certainly affect how we must perform our services for brokerage clients, so changes in technique will be necessary."

If the securities industry is marked by change, so, too, has been Ed's role as specialist for the Firm. (It should be noted that he is also the partner on engagements for several large industrial clients.) Heavy travel has not been a burden for him. "New York is still the focus of the nation's stock-market activities," he said. His major involvement outside of New York has been with offices such as Los Angeles, San Francisco, St. Louis, Chicago and Philadelphia, where we have a substantial brokerage clientele. As the Firm specialist, he acts as resident consultant, fielding questions from practice offices across the country. "We frequently represent out-of-town clients in matters before the SEC and the New York Stock Exchange," he observed.

Not surprisingly, his reputation and authority have put him in demand as a speaker before brokerage industry groups, investment bankers, schools and professional societies. "I believe I should do more speaking in the future," Ed says, but time may prove a problem. At present he is active with the Securities Industry Association as well as with the United Fund of Greater New York. He is a member of the special allocations committee of the Fund, which annually controls disbursement of several million dollars for special programs and projects.

Now, however, he sees new priorities in the use of his time and expertise. "T...
expect to be doing more traveling in the future. I will spend more time assisting various offices in practice-furtherance activities involving potential clients, as well as providing whatever help I can in the preparation or presentation of proposals for securities brokerage engagements," he said.

Ed pointed out that he also will function in a quality control supervisory role on the first audits being done for new clients by various practice offices.

Finally, Ed and several other brokerage partners and managers are working on the development of a training program and maintaining training literature on the securities brokerage industry. "This is essentially the same training program now in use in the New York office," he said. "We want to adapt it so that it can be used by any practice office that wants to give specialized training in the securities brokerage industry to its own people."

A family man, Ed spends as much time as possible with his wife Dot and his three sons, Edward, Kenneth and Stephen. From June through September the Lill family stays at a cottage on Lake Hopatcong in the mountains of northern New Jersey. Ed, a member and a trustee of the Lake Hopatcong Yacht Club, and the boys are devoted to sailboat racing.

"We're racing a twenty-eight-foot Class E sloop named Rebel this year," Ed said. "Up to last year we had a seventeen-foot Thistle-class boat, and that was ideal for Edward, who's 17, Ken, who's almost 16, and me. But now Stephen, 12, has become enthusiastic about racing, so we need the larger boat which requires a four-man crew." The races are held over a nine- to eleven-mile-long course every Saturday and Sunday during the season.

Looking back to his early days with Haskins & Sells, Ed recalls the time Carl Sturgis asked him to be the senior on his first brokerage engagement. "I remember it so clearly," he said. "The thought went through my mind: Should I avoid this?" He didn't, and if Ed Lill's entry into securities brokerage accounting was routine—perhaps even somewhat reluctant—the beginning can only be said to have belied what was to come.