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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
91st ANNUAL MEETING
SAN FRANCISCO HILTON HOTEL
SAN FRANCISCO, CALIFORNIA

P R O C E E D I N G S

COUNCIL MEETING
OCTOBER 21, 1978, 9:00 a.m.
CONTINENTAL BALLROOM

REPORTED BY: R. GARY HILL, CSR #1152

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P R O C E E D I N G S

CHAIRMAN SCOTT: I'd like to call the meeting of the Council to order, please. First of all, I'd like to welcome all of you to California. I started to say sunny San Francisco, but I haven't been out this morning. Is it sunny, or not? Or what's the weather?

It's nice, anyway, nice to be here, a wonderful place to be. I hope all of you got in in time to enjoy some of the sights yesterday. I would like to hope that maybe we could conclude today in time that you can enjoy some of the sights this afternoon, but I don't guarantee you that, that's up to you.

We're very pleased to be here and very pleased to see all of you in attendance. We'll try to run the meeting on a timely basis. It will carry over into the afternoon, I feel reasonably certain.

I'd like to extend a special welcome to the members of the new council, who have been invited as guests for this meeting, and to remind them that to protect the legality of these proceedings that only the members of the 1977-78 council may make motions or vote on formal motions that are made prior to the installation of the new members, which will take place later on today at the conclusion of the present council's meeting.

At that time the new council will then elect the

1 new officers and new board members for the ensuing year.

2 You probably have noted that we have divided the
3 Council section, which is that school room section of course
4 that has tables in front of the chairs into an area for old and
5 an area for new Council members. Since we have a number of
6 items that will take a voting procedure, and to assist me in
7 counting those votes, please be sure that you are seated in the
8 proper area so that we will know what votes we are counting.

9 The chair does extend, of course, the privilege
10 of the floor to new Council members and to committee chairmen
11 who may have been invited and who may be here.

12 I'd also like to acknowledge the presence of two
13 representatives of our legal counsel, Louis Craco and Phillip
14 Corsi, who are sitting at the front. Don Schneeman tells me
15 he's usurped their rights and is going to serve as
16 parliamentarian for this meeting.

17 You have a Council agenda in front of you, but I
18 would like to give you a brief outline of the Council meeting
19 and what we'll be doing today. Our agenda, of course, calls for
20 election of a Council member to fill a vacancy and
21 approval of the minutes of the last meeting. There will be a
22 review of the financial statements. We will receive oral
23 reports from the treasurer and chairman of the Planning and
24 Finance Committee. We have mailed you a written report on the
25 financial statements and Treasurer Harry Mancher is present and

1 and will respond to your questions.

2 We also have a written report on the 1978-'79
3 budget, which will be presented at this meeting for your
4 approval, and Planning and Finance Committee chairman Bill
5 Kanaga is here to answer your questions on that item. I haven't
6 seen Bill this morning, but I sure hope he's here. Maybe he'll
7 be here by the time we're ready for that. There is material,
8 however, covering these two items, it's in your folder at your
9 places.

10 You recall that the members have approved Rule
11 204 -- Other Technical Standards which became effective in
12 March of this year. The Rule requires members to comply with
13 technical standards promulgated by bodies designated by the
14 Council to establish such standards. The Management Advisory
15 Services Division has requested that the Council designate it as
16 the body to issue enforceable standards relating to MAS
17 practice. Stanley Klion, chairman of the division, will
18 present this issue and a draft resolution is also in your
19 material.

20 One of the recommendations of the Commission on
21 Auditors' Responsibilities was that we remove secrecy from our
22 disciplinary process. The board has approved a proposed
23 modification to existing Council resolutions that would open the
24 trial or disciplinary hearings to the public, and material
25 concerning this item is also in the kits that are available to

1 you.

2 At the time of our last fall meeting, Council
3 approved for submission to the membership changes in the
4 Code of Professional Ethics which we felt were in the public
5 interest and were an affirmative and satisfactory response to
6 inquiries of the Justice Department. We have been told,
7 however, that we didn't go far enough -- or maybe we went too
8 far -- and the board recommends that we again seek membership
9 approval to modify our rules and put the matter to rest.
10 Material on these proposals has been sent to you in advance of
11 this meeting, but duplicate material is available to you in
12 your kits.

13 At its May meeting the Board approved for
14 submission to Council changes in our policy on educational
15 requirements as reflected in the Beamer report, which Council
16 adopted some time ago. There was, of course, not sufficient
17 time for Council's prior review of the proposal at our May
18 meeting, and we'll be hearing it from Wayne Albers, chairman of
19 the Education Executive Committee as he presents that proposal
20 to you for consideration today.

21 The last formal item on our agenda is a
22 proposal of the Maine Society of Public Accountants to
23 abolish the Private Companies Practice Section. You have each
24 received a copy of the letter from the Maine Society suggesting
25 this action, and a copy is further available in the material

1 that has been presented to you this morning.

2 Additionally we have some additional information
3 received just quite recently from the Maine Society that will
4 be passed out to you during the course of this meeting. We are
5 having additional copies reproduced so that we would have
6 enough for everybody. We would like to encourage you to read
7 that material at some point in time during our meeting, but in
8 advance of the time we take up the Maine proposal.

9 And of course, before we adjourn today, there
10 will be an open forum to provide you the opportunity to
11 discuss or bring up for discussion any additional items that
12 you see fit.

13 I have a few administrative announcements, or
14 housekeeping chores you need to be alerted to.

15 Please be sure to fill in the attendance form
16 that's in your folder and drop it in one of the boxes at the
17 rear of the meeting room. This is important, since the by-laws
18 provide that any elected member or member-at-large who is
19 absent from three consecutive meetings shall forfeit his seat.

20 Because we have a number of issues on which a
21 vote will be taken, and to facilitate counting the vote, we
22 have designated the school room style area of the hall -- that
23 is the ones with tables in front of the seats -- as being
24 reserved for Council members. White badges with orange trim.
25 And we would much prefer that only Council members sat in these

1 seats.

2 We'd ask any non-Council members, committee
3 chairmen, staff, or others who are in the Council section, to
4 please retire to the observers section, so that when both are
5 taken we can identify readily the proper people that are voting.

6 I see that they are passing out copies of the
7 by-laws and Code of Ethics. They were supposed to have been in
8 the material previously given to you. We feel you need those
9 this morning, and so they're being made available to each of
10 you for further consideration during the course of our meeting.

11 Finally, in planning our agenda, it was uncertain
12 how much time you would want to spend on each one of the items
13 that is up for discussion. If time permits, we will have a
14 coffee break, but whether or not we have such a break, we hope
15 you'll feel free to use the facilities -- utilize the coffee
16 facilities that are in the rear of the hall, and they will be
17 kept fresh most all of the time, so you can feel free to get up
18 and get a cup of coffee if you need to during the course, if we
19 are not able to take a coffee break because of time pressures.

20 We also would hope that all members of Council,
21 both old and new members of the Council, and invited committee
22 chairman will join us for lunch.

23 I would like to observe that lunch is not
24 provided for the observers to this meeting, but it is
25 restricted, the formal lunch for the Council is restricted to

1 Council members and committee chairmen.

2 Mr. Secretary, do we have a quorum present?

3 SECRETARY SCHNEEMAN: Yes.

4 CHAIRMAN SCOTT: I think it's obvious we do.

5 I'd like to give you a brief report on some of
6 the Board activities at this point, since our last Council
7 meeting in May, your Board of Directors has held two meetings.
8 The minutes of the July meeting have been circulated to you.
9 You have received those. The minutes of the September 21st and
10 22nd meeting have been drafted and will be sent to you as soon
11 as they have Board clearance.

12 At the September meeting we agreed to
13 recommend a mail ballot to appeal the encroachment rule and the
14 prohibition against direct, uninvited solicitation. This item
15 is, of course, on our agenda for today.

16 We also received the report of tentative
17 conclusions from the Special Committee on Audit Committees, and
18 requested that a final report be submitted to the Board by that
19 committee.

20 The Board was given the task by Council of
21 establishing a rate for members of the Auditing Standards Board
22 who request reimbursement for services. We approved at our
23 September meeting a rate of \$25 per hour up to a maximum of
24 \$25,000 per year for members who request such payment.

25 Members have urged that the Board take a position

1 on the proposal to raise from two million dollars to five
2 million dollars the cutoff in gross fees at which firms would
3 be eligible to participate in the SBA small business setaside
4 program.

5 This, of course, is an issue on which feelings
6 run very high, and on which it's impossible to take a position
7 without offending some section or some portion of our
8 membership. We concluded that we did not have sufficient
9 information on which to base the decision, and decided to offer
10 to assist the SBA in gathering factual data on which it could
11 base a decision on whether the present two million dollar gross
12 fee cutoff for setaside work should be changed.

13 Prior to its meeting, the Board had received a
14 draft of a final report from the Special Committee on
15 Specialization proposing a pilot program with regard to
16 accrediting specialists. This issue has been brought to your
17 Board several times over the past year, and it is our judgment
18 that this is not the time to implement a program of accrediting
19 specialists, even on a pilot basis. The committee did yeoman
20 work over a period of years on this very difficult issue, and
21 the Council received several interim reports from its
22 chairman, Wilbur Stevens. This committee met just prior to our
23 last Board meeting and made what we understood to be a number of
24 non-substantive changes in the report which had been
25 distributed with our Board agenda. The final report has been

1 mailed to the Board now and we still do not believe that this is
2 the proper time for implementation of an accrediting program.

3 When the Public Oversight Board of the SEC
4 Practice Section was planning public hearings on scope of
5 services, the executive committee of the Private Companies
6 section expressed a strong desire to provide input on a matter
7 which they felt would strongly influence its members. It has
8 been a long standing practice, of course, that only a senior
9 technical committee can speak to outside groups on those
10 matters falling within its area of responsibility. In this
11 case, that body was the MAS Division Executive Committee, but
12 the Board felt there were a number of good reasons for
13 permitting the Private Companies Practice Section Executive
14 Committee to communicate directly to the Public Oversight
15 Board without prior clearance on matters of importance that
16 affect the members of that section. The Board then, acting on
17 behalf of Council, authorized a change in the Sections charter
18 to permit such communication.

19 The expenses of the Public Oversight Board have
20 been heavier than budgeted and expenditures for research into
21 such issues as deferral of investigation when matters are in
22 litigation, scope of services, and a number of lesser, but
23 nonetheless time consuming, items have left the SEC Practice
24 Section with a cash flow problem.

25 The executive committee of that section has

1 authorized a dues increase effective January 1, 1979. In the
2 interim, however, the Board has authorized a short-term advance
3 of up to \$250,000 to tide the section over until the new dues
4 revenue is received. The loan will be repaid on a monthly
5 basis plus interest at the average rate we achieve for other
6 short term investments.

7 There have been a number of challenges to the
8 fact that all State Boards of Accountancy use the AICPA Uniform
9 CPA Examination in discharging their statutory responsibilities to
10 examine candidates for CPA certificates. We have recently
11 completed negotiations with the National Association of State
12 Boards of Accountancy to review the CPA exam on behalf of
13 individual State Boards. In the past, we had two reviews of the
14 Examination conducted by NASBA for the AICPA Board of Directors.
15 The shift in the client for whom NASBA will be reviewing from
16 AICPA to individual licensing Boards is a very important shift.
17 The reviews under this procedure will provide State Boards with
18 a credible response to challenges regarding their responsibility,
19 their individual responsibilities for those exams. The fees will
20 be paid for out of the fees that the AICPA receives from State
21 Boards which use the exam and advisory grading service. It is
22 not expected that the exam fee will have to be increased to
23 cover the costs.

24 There were a number of other items of non-
25 decisional nature that came before the Board, and which will be

1 reported to you in the minutes when you receive them.

2 At this point, I'd like to pause to see whether
3 there are any questions regarding any of the activities of the
4 Board at its last meeting that you might want to raise.

5 (No response)

6 CHAIRMAN SCOTT: There was one further item which
7 should be reported to you, and this item occurred subsequent, of
8 course, to our Board meeting.

9 As you know, in January eighteen members of the
10 Institute petitioned the New York State Court to prohibit the
11 Institute from implementing the Division for Firms program
12 established by Council in September 1977 until the question had
13 been voted on by the membership at large.

14 The Court found in the Institute's favor in mid-
15 summer, and an order dismissing the Complaint was signed in
16 early September.

17 On October 10, the day before the period for
18 taking an appeal of the decision would have expired, four of the
19 eighteen original petitioners filed a notice of appeal. We
20 haven't as yet been served with any other papers or briefs, but
21 if the appeal is, in fact, pursued by the four appellants, we
22 will argue it forceably in support of the Trial Court's decision,
23 and I think it might be appropriate at this point to call on
24 Louis Craco who is our legal counsel and involved with this
25 matter, and the prior matter, for some comments he might feel

1 are appropriate at this time to give to you with regard to this
2 appeal process.

3 Louis?

4 MR. CRACO: Mr. Chairman, I might say that there
5 are relatively few comments that I think are appropriate for me
6 to make while the matter is still before the Court, and
7 virtually all of them have been made by the chairman already.

8 I will say that the notice of appeal was filed as
9 the chairman indicated by four out of the original eighteen
10 members. It has been brought on in the Appellate Division in
11 New York, and on any schedule, assuming that the appeal is, in
12 fact, prosecuted, on any predictable schedule, will not be heard
13 until early next year.

14 That does inhibit me somewhat from commenting or
15 discussing the merits of the case, I feel, but be that as it may
16 I think I should indicate that the Judge who decided the case in
17 favor of the Institute below, Judge Bentley Kassal, is one of
18 those Judges in New York who has a very high reputation for
19 learning and ability, and whose success level at the Appellate
20 level is rather great.

21 That leads us to the view that there is a reason
22 to be confident that if the appeal is, in fact, prosecuted, the
23 Institute's position will continue to be sustained.

24 Mr. Chairman, I don't know that without broaching
25 the secrets of my oral argument I can say a great deal more, but

1 I would be glad to answer any question that you think is
2 proper to entertain.

3 CHAIRMAN SCOTT: Are there any questions of our
4 legal counsel in this matter that he might feel appropriate to
5 answer?

6 Yes, back in the back.

7 JOSEPH B. DRESSELHAUS (Lincoln, Nebraska): What
8 effect would the Maine proposition have on this case?

9 MR. CRACO: Well, I haven't studied the Maine
10 proposition as closely as I would like to in order to answer
11 that question. My understanding of it, however, is that it
12 would eliminate the division of Private Practice Firms and leave
13 a singular Division of Firms.

14 What was attacked in this case was the capacity
15 of Council through its action to create a Division of Firms at
16 all, and the contention was made that that created a new class
17 of membership in the Institute which was illegitimate under the
18 by-laws. If that question persists in the Maine resolution, as
19 I suspect it does, the issue will still be alive in the
20 Appellate Division in the same sense it is under the present
21 structure.

22 CHAIRMAN SCOTT: No further questions?

23 Thank you, Lou.

24 When Council authorized our political action
25 committee, the AICPA Effective Legislation Committee, it did so

1 with the understanding we would report annually on its
2 activities. As you know, the PAC was established to enable us
3 to make low key responses to requests by campaign committees
4 that we furnish luncheon tickets to fund raising events. We
5 have limited our response to incumbents who served on
6 congressional committees that deal with matters affecting the
7 profession.

8 We have collected \$63,557 to date, of which
9 \$62,992 was generated by our original solicitation in 1977.
10 \$635 was contributed so far in 1978.

11 In 1977 we made contributions of \$1,750; and in
12 1978, \$7,300, for a total of \$9,050 so far. We now have a
13 balance of \$53,835 in the fund.

14 I'd like to go to Item 2 of your agenda, the
15 Election of a member of Council.

16 As you can see from the material that's been
17 presented to you, the Connecticut Society of CPAs has reported
18 to us the death of Winston C. McGann, whose term was to expire
19 with this meeting. Robert J. Pue has been nominated to be
20 elected to the new Council this afternoon, and the Society
21 recommended that Mr. Pue be elected to serve the unexpired
22 portion of Mr. McGann's term, so that the State could be fully
23 represented in the deliberations of this Council.

24 The Board believes this request is reasonable and
25 recommends it to you.

1 May I have a motion to elect Robert J. Pue to
2 serve the unexpired portion of the Council term of Winston
3 McGann?

4 FROM THE FLOOR: So moved.

5 CHAIRMAN SCOTT: Is there a second?

6 FROM THE FLOOR: (Numerous seconds)

7 CHAIRMAN SCOTT: Any further nominations?

8 All in favor say aye.

9 (Response from the floor)

10 CHAIRMAN SCOTT: Opposed?

11 (No response)

12 CHAIRMAN SCOTT: So ordered. Mr. Pue is now
13 officially designated as Council member for this meeting from
14 Connecticut.

15 The minutes of the May meeting of Council were
16 distributed to all members of Council, and no suggestions have
17 been received for any changes. May I have a motion to approve
18 the minutes as distributed?

19 FROM THE FLOOR: So move.

20 CHAIRMAN SCOTT: Is there a second?

21 FROM THE FLOOR: (Numerous seconds)

22 CHAIRMAN SCOTT: Any further discussion?

23 All in favor say aye.

24 (Response from floor)

25 CHAIRMAN SCOTT: Any opposed?

1 (No response)

2 CHAIRMAN SCOTT: So ordered.

3 You have each received a copy of the financial
4 statement for the year ended July 31, 1978 -- isn't that it.
5 Donald? The current year we're in? I gather with the written
6 report of the treasurer.

7 Harry Mancher is with us this morning, and I've
8 asked him to give you a brief rundown on our financial
9 statements. Several members have asked us to dispense with the
10 slide presentation of highlights of the statements and budgets,
11 and we are doing so this year. If you have a preference for the
12 slides, I am sure we will be hearing from you.

13 Harry, will you occupy the podium to your right
14 and give us a brief report on the financial information?

15 TREASURER MANCHER: Good morning. I'm not going
16 to review the financial statements as a whole. I think the
17 Treasurer's Report covered most of my observations. I merely
18 would like to supplement that report with a few brief comments,
19 if I may:

20 The operations for the past year were
21 particularly satisfactory, with revenues exceeding expenditures
22 by \$1,806,000. This was \$860,000 more than was anticipated in
23 the budget.

24 All classes of revenues were in excess of the
25 budget, including membership dues, investments, and

1 miscellaneous income; however, the revenue producing activities
2 such as miscellaneous publications and advertising were
3 primarily responsible for the added net income for the year.

4 The CPE program reached six million dollars for
5 the first time, but you remember, this is a break-even program,
6 and expenses increased by almost as much as the increase in
7 revenues.

8 The added income was provided by the CPA
9 examination, subscriptions and advertising revenue, but the
10 tremendous upsurge in the sale of miscellaneous publications was
11 the primary factor resulting in the healthy black figure for the
12 year.

13 Turning to expenses, I wish to note that the
14 Institute's sponsorship of the Division for CPA Firms cost
15 \$466,000 during the past year, and that this item was not
16 provided for in the budget announced by Council last fall. This
17 amount accounts for sixty-five percent of the variation over
18 budget for AICPA programs and activities other than the revenue-
19 producing activities. Some of the costs of this program were
20 partially offset by reductions in other areas, and by salary
21 savings resulting from positions not filled.

22 Another major variation from budget resulted from
23 the following: In an effort to communicate with the membership
24 and to keep the members informed about unusual events, and
25 particularly the Congressional Hearings in Washington concerning

1 the accounting profession and the lawsuit pertaining to the
2 Division of CPA firms, costs for printing, paper, and postage
3 for publications sent to members exceeded budget by a rather
4 wide margin, \$280,000.

5 Another expense, legal fees, exceeded the budget
6 by more than \$160,000, and this was due to expenditures in
7 connection with three matters: One, the lawsuit concerning the
8 Division for CPA Firms; two, help in the organization of the
9 Division of CPA Firms; and, three, legal assistance required
10 with FTC and Justice Department investigations.

11 As the membership in the Institute grows, and as
12 the number and complexity of programs included in the budget of
13 the Institute grows, so does the number of committee meetings
14 held by the Institute in various spots of the United States.
15 During the past year we over spent our budget for such meetings
16 by a considerable amount, although this was partially the result
17 of the activities of the Division for CPA Firms, activities of
18 other committees required staff and member travel and meeting
19 expenses of almost \$180,000 in excess of budget. Undoubtedly, a
20 greater number of meetings contributed to this increase, and so
21 did price increases.

22 Locations of the meeting places, however, were
23 also a major factor. More consideration should be given to
24 meeting sites by the committee chairmen in order to keep the
25 costs in this area under control.

1 Before I ask whether you have any questions, I
2 would also like to report that I received yesterday a financial
3 statement for the two months ended September 30, and I can
4 report that we are close to budget, we are slightly behind,
5 \$150,000, and again, it's primarily due to the item involving
6 sale of miscellaneous publications which fell below the budget
7 we had estimated, we expect it to correct itself as the year
8 goes along.

9 If you have any question concerning the financial
10 statement or my reports, including my remarks today, George
11 Taylor and I will try to provide you with the answers. Are there
12 any questions?

13 CHAIRMAN SCOTT: Any questions now? There's one
14 at the back.

15 CHARLES W. NEILSEN (St. Croix, Virgin Islands):
16 I notice that the balance sheet, the largest item on the balance
17 sheet, "Marketable securities," approximating something over
18 twelve million dollars is a very important item in the assets of
19 the Institute, and I wondered whether it would be appropriate
20 for the Council to know what the investment policy is of the
21 Institute, and perhaps some general detail as to what the
22 investments are, since, while there is extensive detail given to
23 many other items, there is no detail given to that.

24 TREASURER MANCHER: I am sure we would be happy
25 to give you the additional information. I can only tell you

1 broadly that basically those are short term investments and that
2 the bulk of that, except for a million and a half dollars is
3 invested in various equity and fixed income securities.

4 During the past year there was a review of the
5 investment policy, and, in fact, the Investment Committee as
6 such has been going -- during the last two or three months has
7 been going through a review of the investment advisor that we
8 have been using for the last seven or eight years, and is about
9 to make a recommendation to the Board as to whether we continue
10 with such an investment advisor, or whether we should make a
11 change.

12 Basically, the details of what we have, the bulk
13 of it are short term, very liquid CD's et cetera and there isn't
14 much we can do with that. There's about a million and a half
15 that there are investment policy decisions to be made, and, Mr.
16 Chairman, we would be happy to give the information as part of
17 this year's report, or include it in next year's report.

18 CHAIRMAN SCOTT: I think it might be appropriate
19 to supply it to them for this year.

20 TREASURER MANCHER: We'll be happy to supply that
21 to the Council.

22 George, will you make a notation of that, please?

23 CHAIRMAN SCOTT: Any other notations to the
24 treasurer?

25 TREASURER MANCHER: I wanted to anticipate you to

1 give it a little time, page eight, we don't really mean "less
2 allowance for doubtful accountants." We mean doubtful accounts.

3 Accountants may be wrong, but they are not
4 doubtful.

5 (Laughter)

6 TREASURER MANCHER: Thank you.

7 CHAIRMAN SCOTT: Thank you, Harry.

8 It's always nice to know that our finances are in
9 good hands.

10 The proposed budget and explanatory message from
11 the Chairman of the Planning and Finance Committee has been sent
12 to you and I'll ask Bill Kanaga, the committee's chairman, to
13 tell us what he has in his crystal ball with regard to next year.

14 Bill, would you take the podium and give us a
15 brief rundown on the budget we will be expected to approve or
16 disapprove this morning.

17 MR. KANAGA: Copies of the proposed budget for
18 1978 and '79, and a brief report from the Planning and Finance Committee
19 were mailed to you prior to the meeting. Additional copies have
20 been included with the material that you had distributed to
21 you when you came through that long line out there.

22 Although the budget for '78-'79 indicates
23 revenues totalling 29.9 million, an increase of 2.6 million over
24 the past fiscal year, the budget projects an even greater
25 increase in expense, and therefore some reduction in net income

1 compared to the year that Harry just reported upon.

2 Although part of the reason for the decline is
3 perhaps due to our native conservatism, the key is our feeling
4 that we will not be keeping up with inflation, that we will be
5 having increases in expense which exceed our -- either our
6 desire to increase our income or expected increase in revenue-
7 producing activities.

8 We do expect revenues to exceed expenses by
9 nearly 1.2 million, and increase in gross revenues is expected
10 from dues resulting from increase in membership and from our
11 investments, and from sundry self-sustaining programs, but the
12 major portion of added revenue is expected to come from revenue-
13 producing activities, an increase of nearly two million.

14 Of that total, small increases are expected from
15 CPA examinations, subscriptions and advertising, but most of the
16 increase is expected to come from the continuing growth in the
17 sale of CPE courses and miscellaneous publications, although Harry's
18 report indicates we're running a little behind.

19 With the projected increase of income from
20 revenue-producing activities, we anticipate a sizeable increase
21 in related costs. This includes a number of additions to staff,
22 additional office space to house them, salary increases for the
23 present staff, added costs for CPE course presentations, a
24 significant increase in the projected costs of printing, and for
25 paper, and such other increases as the jump in postal rates for

1 the full year.

2 Cost increases for programs and activities
3 outside of the revenue-producing area include the full year
4 costs for the Division of CPA Firms, and a sizable addition, as
5 you know, to our auditing standards program.

6 For the first time, our budget includes a
7 provision for compensation to some members of the Auditing
8 Standards Committee and for Directors fees for three public
9 members being added to the Board.

10 The budget provides for a reduction in travel
11 and meeting expense, as well as legal fees. Whether this is
12 wishful thinking remains to be seen. Obviously, these savings
13 will not materialize if we have a continuation in the growth of
14 the number of meetings held and/or unforeseen developments
15 requiring legal assistance.

16 We on the committee are satisfied that Institute
17 management has exercised reasonable and prudent judgment in the
18 budgeting process that you have in hand, and that the outcome
19 for the year should be approximately as shown.

20 The brief report from the Planning and Finance
21 Committee mailed to you previously explained the proposed
22 budget of capital expenditures and additional detailed
23 commentary seems unnecessary.

24 Mr. Chairman, I move the adoption of the
25 operating budget and of the budget of capital expenditures as

1 distributed to the members of Council.

2 I will be glad to answer any questions with the
3 help of George Taylor and Harry Mancher that might arise in
4 connection with the consideration of that motion.

5 CHAIRMAN SCOTT: Do I hear a second?

6 FROM THE FLOOR: (Numerous seconds)

7 CHAIRMAN SCOTT: Is there any further discussion,
8 or do you have any questions of Bill with regard to the budget
9 for next year?

10 Pardon me, fellow at the back.

11 ROBERT C. SASSETTI (Oak Park, Illinois): I think
12 it might be a good idea if we removed the personal expenses from
13 the budget. There's another typo on page two, salaries, fees
14 and personal expenses, it might prove to be embarrassing.

15 CHAIRMAN SCOTT: Harry has been proofreading
16 these things, and obviously he's unreliable. I agree. Point
17 well taken.

18 Any further questions or discussions?

19 DONALD E. SCHMALTZ (Southfield, Michigan): What
20 is the nature of the item identified as contributions in the
21 amount of five hundred sixty thousand dollars, page two?

22 CHAIRMAN SCOTT: George, could you tell us what
23 that contribution figure is?

24 CONTROLLER TAYLOR: Two items account for the
25 major portion of the contribution figure. As you know, the

1 Institute contributes to the National Accounting Foundation
2 each year an amount equivalent to two dollars for each member of
3 the Institute. In the new year that will amount to a little
4 over \$280,000. The Board of Directors has included here, as it
5 did last year, \$200,000 for the Foundation to assist in the
6 program that's carried on there for disadvantaged students.
7 Some dues are included there for foreign organizations, et
8 cetera, but those two things make up the bulk of the amount.

9 CHAIRMAN SCOTT: Thank you, George.

10 GEORGE L. BERNSTEIN (Philadelphia, Pennsylvania):
11 I notice on page three a rather significant reduction in the
12 public relations budget under communications with other groups
13 in comparison with the budget for this past year, and the actual
14 Could you give some indication as to what the scope of that
15 program will be for this year?

16 MR. KANAGA: I'll let my friend George.

17 CONTROLLER TAYLOR: The reduction is probably
18 mostly a matter of how the staff expects to spend their time.
19 If you look just below that on "State Societies" you have an
20 almost corresponding increase, and it's a matter of the staff
21 and the public relations division or section spending their time
22 on designated State Society activities as opposed to items that
23 might be called public relations.

24 CHAIRMAN SCOTT: Further questions?

25 Ready for the motion?

1 All in favor say aye.

2 (Response from floor)

3 CHAIRMAN SCOTT: Any opposed?

4 (No response)

5 CHAIRMAN SCOTT: So ordered.

6 Thank you very much, Bill.

7 In March of this year, the membership vote on
8 Rule 204 was completed and we had a new rule which provided, and
9 I quote:

10 "A member shall comply with other technical
11 standards promulgated by bodies designated
12 by Council to establish such standards, and
13 departures therefrom must be justified by
14 those who do not follow them."

15 As you know, while we do have enforceable
16 standards in accounting and auditing, there are no such
17 enforceable standards in Tax and MAS. The MAS Division
18 Executive Committee has asked to be designated as the body to
19 promulgate standards for performance of management advisory
20 services.

21 Stanley Klion, chairman of the MAS Division
22 Executive Committee is with us today, and I'd like for Stanley
23 to come to the podium and tell us why the committee is proposing
24 a change and what we might expect the effects of the change to
25 be.

1 MR. KLION: Mr. Chairman, in 1974 the MAS
2 Executive Committee on behalf of the MAS Division promulgated
3 eight practice standards. These were not written into the
4 Rules of Conduct, but are practice standards, and indicated
5 that departure from such standards would probably have to be
6 justified by any member who was found to have not followed them.

7 Earlier this year Rule 201 was promulgated, and
8 incorporated four of those eight practice standards. Four
9 others were not discussed at all.

10 As your chairman said, the MAS Division is one
11 of two that has no enforceable standards within the Institute,
12 and as to the Tax Division, of course, the government provides
13 some guidance in that respect.

14 The MAS practitioners of this Institute wish to
15 be bound by the same type of Rules of Conduct as any other
16 member of this Institute. We believe that not having
17 enforceable standards written into the Rules of Conduct puts us
18 at odds with the rest of the profession. We do not believe that
19 our practitioner members should be put in the position of
20 interpreting variously those matters of MAS practice which are
21 not in our Rules of Conduct, and so earlier this year the
22 Executive Committee of MAS Division requested permission to come
23 to this Council and to ask for authorization to develop practice
24 standards which will be written into the Rules of Conduct so
25 that we, too, would be bound by the same restrictions and same

1 Codes of Conduct as any other member.

2 We have made it quite clear that it is not our
3 intent to deal with such matters as scope of service, that's a
4 subject that others are talking about now, and this is hardly
5 the forum to speak to it.

6 Equally clearly, such standards as we may suggest
7 for exposure would be reviewed by relevant senior technical
8 committees of the Institute, particularly the Ethics Committee
9 as to matters of independence.

10 In brief, that summarizes our reasons for wishing
11 to be here, when Rule 204 was promulgated earlier in the year
12 along with 201, ninety-one percent of the membership of this
13 Institute concurred with this, and we would like, Mr. Chairman,
14 to be the first entity of the Institute designated by this
15 Council to write the Rules of Conduct for our practice.

16 CHAIRMAN SCOTT: Thank you, Stan.

17 Each of you in your kits, under Item 6, have a
18 copy of a resolution which responds to the MAS Divisions request
19 and which has been cleared with your Board of Directors. This
20 Resolution provides as follows, and I quote:

21 "WHEREAS: The membership of the Institute
22 has adopted Rule 204 of the Rules of Conduct
23 which authorizes the Council to designate
24 bodies to promulgate technical standards
25 with which members must comply, and therefore

1 it is

2 "RESOLVED: That the Management Advisory
3 Services Executive Committee is hereby
4 designated to promulgate technical standards
5 under Rule 204 with respect to the offering
6 of management advisory services provided,
7 however, that such standards do not deal
8 with the broad question of what, if any,
9 services should be proscribed, and provided
10 further that any such statements are subject
11 to review by affected senior technical
12 committees of the Institute prior to issuance."

13 May I have a motion on the floor?

14 FROM THE FLOOR: So moved.

15 (Numerous seconds)

16 CHAIRMAN SCOTT: The motion has been made and
17 seconded.

18 Is there any discussion?

19 All in favor say aye?

20 (Response from floor)

21 CHAIRMAN SCOTT: Any opposed?

22 (No response)

23 CHAIRMAN SCOTT: Stan, you have it, thank you.

24 MR. KLION: Thank you, Mr. Chairman.

25 CHAIRMAN SCOTT: I would like now to turn to Item

1 7 on your agenda with regard to openness of disciplinary
2 hearings.

3 While the report of the Commission on Auditors'
4 Responsibilities did not suggest any radical reordering in the
5 structure of the profession's disciplinary process, it did
6 suggest that there be less secrecy and greater openness in our
7 disciplinary process. Council has since modified its
8 resolutions to require publication of the name of any
9 respondent found guilty at a trial board hearing.

10 As another part of our response to the
11 Commission's recommendations, we appointed a special committee
12 on openness of enforcement proceedings. That committee made
13 a number of recommendations for opening our process to public
14 scrutiny during the investigation stages that the Board felt
15 were premature. While we recognize that there is a legitimate
16 public interest in our processes, we do not think it necessary
17 for public confidence, nor do we think it fair to the
18 respondent, to open any part of the process prior to the Trial
19 Board Hearing stage.

20 But the special committee felt that the
21 disciplinary hearings should be open to the public, and the
22 Board agreed.

23 We asked the Trial Board to consider modifying
24 its rules so as to require public hearings. The Trial Board
25 notified us that, while it was prepared to permit the

1 respondent to choose to have the public present at a
2 disciplinary hearing, to require all future hearings to be open
3 to the public would be such a substantive change in the rights
4 of members under charges that it could not be effected by a
5 Trial Board rule change without prior authorization in the
6 implementing resolutions of Council, so that matter comes to
7 you, the Council, for resolution.

8 The Trial Board Executive Committee has asked its
9 chairman, Paul Lambert, to present its view on this issue, and
10 if he rises to speak, I would propose to give him the floor
11 first so that we will have the benefit of the Trial Boards view
12 early in our discussion.

13 You have in your kits the text of the
14 modification to Council's implementing resolutions that would
15 authorize the Trial Board to open disciplinary hearings to the
16 public. I should observe that it is proposed to open only the
17 disciplinary hearings to the public. Other hearings, such as
18 requests for readmission, would remain closed.

19 Do I have a motion to amend the existing Council
20 resolution so as to authorize open hearings as set forth in your
21 kits, to get this matter on the floor?

22 FROM THE FLOOR: So move.

23 CHAIRMAN SCOTT: Motion has been made, is there
24 a second?

25 FROM THE FLOOR: (Numerous seconds)

1 CHAIRMAN SCOTT: Motion has been made and
2 seconded. Now, the item is open for discussion and by any
3 interested party.

4 I see Paul is rising, so I promised to recognize
5 him first.

6 MR. LAMBERT: The Executive Committee of the
7 Joint Trial Board Commission has asked me to express its views
8 on this matter to the Council. As you have indicated, the
9 Executive Committee does not believe the resolution should be
10 adopted. The Committee feels we should not strip our members of
11 their right to privacy in attempt to satisfy critics to our
12 process.

13 As you indicated, the Committee believes a
14 respondent should be able to request a hearing be open if he
15 feels disadvantaged by a private hearing. In evaluating this
16 proposal, Council should keep in mind that hearing panels are
17 not made up of jurists and usually they are not made up of
18 persons trained in any of the laws of evidence. They are made
19 up of CPAs trying, in an orderly process, to get all of the
20 facts before them, evaluate those facts, and reach an impartial
21 decision based on their evaluation. There are legal risks in
22 any disciplinary hearings. We believe open hearings would
23 aggravate the risks already there. Society recognizes the costs
24 inherent in the scheme demanded by an open legal system, and
25 seeks to minimize these costs. For this reason, Judges, grand

1 jurors, and public prosecutors are largely immunized from
2 prosecution by those who eventually may be acquitted of charges
3 brought against them. Trial Board hearing panels are not immune
4 from suit for defamation and damages, and we should not burden
5 panel members, in our opinion, with the added pressures involved
6 in conducting hearings in the open as they determine the guilt
7 or innocence of our members.

8 In our hearings, we do not follow the normal
9 Rules of Evidence. We follow our own rules which are published
10 to all who appear before us. We feel that our rules are fair
11 and meet the standards of due process. They provide for an
12 orderly hearing and permit us to receive evidence that would be
13 probably unavailable to us under the formal Rules of Evidence.

14 If the public were to be present, we may well
15 have to restrict the scope of our inquiry in fairness both to
16 the respondent and third parties so that only legally relevant
17 material is considered.

18 Also, in technical standards cases, client
19 information is subject to very searching scrutiny. While the
20 Rules of Conduct relieve the CPA from the bond of
21 confidentiality when dealing with the Ethics Committee or Trial
22 Board, they are silent as indeed they should be, on the client's
23 rights of privacy to his own information. We, the Institute,
24 can define professional confidentiality and even set the limits
25 on our confidential relationship rule, but we have no authority

1 with respect to non-members' rights of privacy. While it is
2 true that the client's right of privacy is breached when we hold
3 a private hearing, the breach, in our opinion, is at most
4 technical, and the information does not leave the confines of
5 the hearing room. But if the hearings were open, we cannot
6 control the use by non-members of the information which is
7 developed.

8 The Council should also realize there is a
9 tremendous strain on any practitioner called before a Trial
10 Board Hearing Panel. That strain will be heightened if the
11 public is witnessing the proceedings. In fact, it's very
12 possible that a member will choose not even to attend a hearing
13 if it's open to the public. While the Trial Board could proceed
14 in such a situation under our rules, it is obviously desirable
15 and fair to have the respondent present, and we should not throw
16 impediments in the way of a member being present.

17 In the considered judgment of our executive
18 committee, no change should be made other than to permit the
19 respondent the right to request that a hearing be open, with the
20 understanding that such a decision places on him the
21 responsibility of the disclosure of client privacies.

22 We believe we can make that change under our
23 existing authority, and therefore urge that the proposed
24 resolution not be adopted.

25 Thank you.

1 CHAIRMAN SCOTT: Thank you, Paul. Are there any
2 other discussions?

3 A. CLAYTON OSTLUND (Chicago, Illinois): I just
4 have one question: Could we get our legal counsel's opinion as
5 to the risks that we would be running by having it open? That's
6 point one.

7 Point two, I think from prior discussions it was
8 brought out that the respondent's name will not be given in any
9 notice of a Trial Board Hearing. As I recall it, and correct me
10 if I am wrong, Don, you announce the date of the hearing, a
11 summary of the charges, disguised to the amount which you could
12 not deduce which case it was, and the respondent's name would
13 not be given, is that correct?

14 SECRETARY SCHNEEMAN: That's correct.

15 MR. OSTLUND: Could we have legal counsel's
16 opinion as to whether we're really running a legal risk against
17 Trial Board members by having them open?

18 CHAIRMAN SCOTT: I think that's a fair question.
19 While they are meditating on that, to give them a little more
20 time, we will call on them in just a minute. I see Harry Reece
21 is in the back of the audience, I know Harry is never at a loss
22 for words. He was chairman of this committee that made the
23 recommendation to the Board, maybe he would like to make some
24 comments at some time in the discussion, if he does, feel free
25 to rise, Harry.

1 SAMUEL A. DERIEUX (Richmond, Virginia): I'd like
2 to agree with what Paul Lambert said. I think we ought to keep
3 in mind that we are now required to publicize all guilty
4 decisions, therefore, if a member has been found guilty, the
5 public will be aware of that, and I fail to see what purpose is
6 served by letting the public in on those proceedings where the
7 member is found to be innocent or not guilty, and I would,
8 personally, expect to vote against the resolution, whatever
9 others do.

10 CHAIRMAN SCOTT: Louis, we've given you a little
11 time, now maybe you can respond.

12 MR. CRACO: This will be one of the less
13 expensive opinions you've gotten.

14 (Laughter and applause)

15 Trying to help Harry with the budget.

16 We obviously have not been previously asked to
17 study the question, and consequently what I'm about to say is
18 based upon experience I've had in other areas on similar
19 questions:

20 In my judgement, the legal risks that the Trial
21 Board would be exposed to and that witnesses appearing in
22 support of allegations before the Trial Board would be exposed
23 to, would be rather minimal. I think the law certainly in New
24 York State, and I believe in several jurisdictions, allows self
25 regulatory Boards which are exercising their responsibilities,

1 and persons who are in aid of those responsibilities appearing
2 as witnesses or as complainants, a qualified privilege against
3 prosecution in civil matters for slander or for libel, provided
4 that the whole thing is done without actual malice -- which is
5 a term of art of some high level of actual malice required. So
6 as a preliminary matter, without studying the matter carefully,
7 I think our conclusion would be that the Trial Board would not
8 be exposed in a substantial degree to civil liability for doing
9 what they are already doing, but doing it in public.

10 The only issue analytically raised by the
11 question of whether the thing would be done publicly or not is
12 whether the publication of the events is extensive. You can,
13 of course, slander a person in small circle as well as you can
14 in a large, and analytically the thing is no less slander or
15 libelous if it's done in the confines of the Trial Board as in
16 the presently provided for scheme of publication, so it's really
17 only a question of damages that would ensue, and I think the
18 risk is, again, without conclusive study of it, rather nil.

19 ARTHUR J. DIXON (New York, New York): I rise to
20 speak for the resolution, primarily because I was a member of a
21 committee, I guess a year or so ago, which looked into the whole
22 question of openness of our proceedings, and I think as Don
23 Schneeman will remember, this question of the openness of the
24 disciplinary proceedings was discussed preliminarily at that
25 meeting. I was then in favor of opening the disciplinary

1 hearings, although the matter was deferred and put over to a
2 consideration by a special committee, and I think appropriately
3 so, and I was pleased at the conclusion of that special
4 committee.

5 I am in favor of the resolution for the following
6 reasons: If one takes as a given, which I think this Council
7 should at this point, that it is in our interest as well as in
8 the public interest to conduct as much of our affairs in the
9 sunshine as we possible can and to close our sessions only in
10 those situations where there is a responsible reason for doing
11 so, I think that taken as a given, the matter of a disciplinary
12 hearing being open to the public follows from that.

13 I think that one should bear in mind that the
14 investigative procedure, the ethics division proceeding will, if
15 this resolution passes, continue to be a private proceeding. It
16 is during that proceeding that responsible members of this
17 profession do look into the allegations against the member
18 involved, and only if the ethics division decides there is a
19 prima facie case does it come to the Trial Board proceeding.

20 And I think, based upon a long history of
21 responsible actions of the ethics division, I think we can and
22 should be assured that a proceeding will go, as it now goes, to
23 a disciplinary hearing only if there is that kind of a prima
24 facie case against the member.

25 And I repeat that it's during that proceeding

1 where the privacy is most important, that privacy will
2 continue.

3 Now, as a matter of fact I will suppose -- or it
4 is possible, let me put it that way -- that if we do get to a
5 situation, if this resolution and the disciplinary hearing
6 becomes an open hearing, I think, if anything, this will
7 underline the responsibility that the ethics division bears in
8 arriving at the conclusionary or prima facie case. I am not
9 saying it will increase the responsibility or will increase the
10 ethics division preception of the responsiblity, but
11 nevertheless the fact that a member will go into a public
12 hearing will very much underline the responsibility of the
13 ethics division in finding a prima facie case.

14 Secondly, in the hearing itself, in the
15 disciplinary hearing itself, I think that the fact that outside
16 observers or the public may sit and witness those proceedings, I
17 think that fact will do a number of things: First of all, it
18 will remove any cloud in people's minds that we are conducting
19 hearings which are not fair either to the member or to the
20 public. I think that our Trial Board proceedings, based upon
21 their past record, are eminently fair, both to the member and to
22 the public, and if there is any perception in the public's mind
23 that we are trying to cover up anything -- I'm not saying there
24 is -- but if there is any perception in the public's mind we're
25 trying to cover up anything, inviting them in to hear the

1 proceeding will remove that.

2 And finally, I have no doubt whatsoever that the
3 appearance at the hearing -- not the participation, but at least
4 the observation at the hearing by the public, or by others, will
5 not adversely affect in any way either the rights of the member
6 -- because I am sure the rights are eminently protected now and
7 will continue to be eminently protected -- nor do I think that
8 such observation by the public will have an adverse effect upon
9 the proceedings. I think the proceedings are fair now, I think
10 they are conducted in a reasonable and orderly manner and I
11 think they will continue to be so conducted, and I think it's in
12 our best interest that the public observe the manner in which we
13 conduct those proceedings.

14 CHAIRMAN SCOTT: Thank you.

15 LOUIS M. KESSLER (Miami, Florida): It's been a
16 long time since I've been up here. As a former chairman of the
17 Trial Board, I want to echo and support everything said by Paul
18 Lambert. I think Don Scheeman and I get along reasonably well
19 in the hearings he conducted, but I certainly would not want to
20 be chairman of the Trial Board if it were open to the public.
21 We're doing a lot in the sunshine but I don't want to see us get
22 blinded by the sunshine if we go overboard. I have seen little
23 pieces in the paper, very small, where Jack Anderson apologized
24 for something he said in a big article sometime before, after
25 the damage is already done. And I can just see the press saying

1 in headlines that "Prominent CPA from Watahachee, Texas fudges
2 tax return," and blows it all apart, so I advise you to follow
3 Paul Lambert's arguments, apart from the minimal danger we might
4 have from a lawsuit.

5 THE CHAIRMAN: Phil?

6 PHILIP L. DEFLIESE (New York, New York): I'd
7 like to join my past chairman in supporting Paul Lambert's view.
8 I think the sunshine business has gotten out of hand. I'm not
9 quite sure, but I don't believe the legal profession nor the
10 medical profession holds its top Trail Boards in the open public,
11 and we all know what the press can do to anyone it wants to, and
12 we've been subject to that for some time. I think the fact
13 that the defendant has a right to an open hearing is an
14 excellent compromise on the issue of sunshine. After all, we
15 are more interested in the defendant's rights than we are
16 anything else. Thank you.

17 CHAIRMAN SCOTT: Thank you, Phil.

18 Any other discussion? Are you ready for the
19 question?

20 All in favor of the motion as stated to open the
21 disciplinary hearings of the Trial Board to the view of the
22 public say aye.

23 (Response from floor)

24 CHAIRMAN SCOTT: All opposed?

25 (Response from floor)

1 CHAIRMAN SCOTT: The chair rules that the motion
2 failed, and that the noes have it.

3 I think now would be an excellent time, we're
4 running fairly well on schedule, I may be a little bit
5 optimistic about one or two items that we have left, but I think
6 you're entitled to a little bit of a coffee break, so why don't
7 we take a twenty minute coffee break and be back in the meeting
8 room at 10:35.

9 (Short recess)

10 CHAIRMAN SCOTT: I'd like for us now to return to
11 Item 8 for consideration, and before we begin our discussion of
12 Items 8 and 9, actually, I'd like for Wally Olson and Louis
13 Craco to come up to the podium, if they would, please, and sit
14 up here, because I am going to call on you to make a statement
15 in a minute.

16 I think it would be in order, as I get into that,
17 to consider the next two items as a unit for discussion
18 purposes, although obviously we will want to vote on each one of
19 them separately.

20 You have received a letter from me on behalf of
21 the Board of Directors outlining our position on the
22 encroachment rule and on the second sentence of the advertising
23 and solicitation rule. You have also received a letter and memo
24 from our legal counsel evaluating this situation for you.

25 Some of us may well ask, since the AICPA adopted

1 this rule less than a year ago, how is it that we find ourselves
2 considering yet another change? And I think that's a logical
3 question. In response to that I will point out three things:
4 First, the the proposed change would return us to the language
5 the Board proposes in September, 1977; second, we had advice of
6 legal counsel in September 1977 that the second sentence was a
7 restraint of trade that would be tested under the "Rule of
8 Reason," but that it could be defended. The Supreme Court only
9 this year severely narrowed the scope of the "Rule of Reason"
10 defense in an antitrust action, so that legal counsel is now
11 not at all sure that a successful defense can be mounted if the
12 rule were to be attacked. Third, we have been told by a
13 representative of the Justice Department that they are prepared
14 to bring a complaint seeking removal of that second sentence,
15 the prohibition against direct uninvited solicitation.

16 These two new elements, the change in the law and
17 the expressed conclusion by Justice Department representatives
18 that the sentence is an indefensible restraint, causes us to
19 bring the matter to Council and to recommend affirmative action
20 on this.

21 I have asked Wally Olson to address the Council
22 on his analysis of our options, and following his remarks, I'd
23 like to call on Louis Craco to give us some observations with
24 regard to how this impacts our relations with the Justice
25 Department.

1 Following those, I'd ask for a motion on Item 8,
2 encroachment, and when we've finished with that we'll move on to
3 Item 9, advertising and solicitation, and take the matters up in
4 this order. Wally?

5 PRESIDENT OLSON: Stanley has asked me to speak
6 to the various alternatives that were considered by the Board
7 of Directors when this matter was discussed at their last
8 meeting in September, so I'll try to do this as dispassionately
9 as I can.

10 There are basically two broad alternatives that
11 we have available to us, and then there are many subsets under
12 those two broad alternatives. One, of course, would be to take
13 no action whatsoever to eliminate the second sentence of Rule
14 502.

15 Now, I'm only going to be speaking here to that
16 second sentence of Rule 502 which says that you may not engage
17 in direct, uninvited solicitation. The encroachment rule, I
18 think, is a separate matter and perhaps needs less discussion.

19 In any event, one of the two broad alternatives
20 is to take no action whatsoever to eliminate the rule, and let
21 the Justice Department do its worst.

22 The second alternative is to take voluntary
23 action to eliminate the second sentence by submitting the matter
24 to a vote of the membership, and this is based on the
25 assumption that the filing of a complaint against the Institute

1 by the Justice Department is virtually certain to happen if we
2 don't take voluntary action.

3 Now, it's these two broad actions I'd like to
4 discuss individually and get into some of the subsets under each
5 one of them. With respect to the first one, of taking no action
6 to eliminate the second sentence, we basically have two options
7 there: One is to litigate the issue all the way to the Supreme
8 Court, or stop at some point along the way before we reach there
9 but in any event, to litigate the issues.

10 The second option under taking no action to
11 eliminate the sentence is to at some point negotiate a consent
12 decree, and there might be two times when that might occur. One
13 would be before the filing of a Complaint, if that were possible,
14 although that would be discretionary on the part of the Justice
15 Department, and is probably not favored by the Justice
16 Department, based on our discussions and their general policies.
17 So while we might attempt to negotiate a consent decree before
18 the filing of a Complaint by the Justice Department, possibly we
19 would not be given that opportunity; or, we might negotiate a
20 consent decree after the Complaint is filed but before trial on
21 the issues.

22 Now, what would be the likely course of events if
23 we made a basic decision to litigate? First of all, the
24 Complaint that would be filed in Federal Court would be broad
25 and would challenge every conceivable antitrust violation that

1 may exist in the Code, so the chances are you may get attacked
2 on more than we would otherwise be attacked on if we took
3 voluntary action. Secondly, we believe there would be little
4 chance of success in retaining the rules in the present form.
5 Now, that, of course, is a question that our lawyers will have
6 to speak to, but I believe that after a thorough consideration
7 of all of the advice, legal advice that was given to the Board,
8 it concluded there would be little chance of success.

9 Thirdly, the emphasis, there are substantial
10 costs in carrying out litigation, and those costs would not only
11 be in terms of money, but in terms of time as well. Also, if we
12 were to lose the litigation, a Court order would require removal
13 of the rule and would prohibit enforcement and it would go
14 beyond that, it would prohibit us from saying what we might
15 otherwise be free to say about solicitation; by that I mean, if
16 we took voluntary action and eliminated any enforceable rule
17 which was free of any consent decree as a result of litigation,
18 we would then be free to say whatever we wanted to say to
19 encourage our members with respect to restraints and
20 solicitation without being in contempt of Court.

21 Also, even if we prevailed in litigation, even if
22 we were successful in litigation, the narrowness of the ban
23 that we would retain would probably make it virtually useless in
24 the face of the fact that we do now permit advertising and other
25 forms of solicitation that we cannot ban under Supreme Court

1 decisions; and finally, the ban would be difficult, if not
2 impossible, to enforce.

3 Another consideration under the litigation option,
4 and that is, if we commence litigation it probably would be
5 somewhat politically difficult to stop short of going all the
6 way to the Supreme Court. I think the Board felt that our
7 members would think that we had caved in too soon, or had made a
8 bad decision to litigate in the first place, if we settled
9 somewhere short of the Supreme Court.

10 And then finally, another possible offshoot of
11 litigation, would be adverse publicity which would tend to
12 reinforce a negative impression of the profession with the public.

13 Now, what would be the likely course of events if
14 we negotiated a consent decree before trial? This is on the
15 option of not taking voluntary action, but as soon as a
16 Compliant is filed, then seek to negotiate a consent decree.
17 Well, first of all, a consent decree would certainly require
18 elimination of the rule and would prohibit enforcement of the
19 rule and would also prohibit statements being made by the
20 Institute to its members discouraging solicitation. Also, a
21 consent decree would require, at least for a period of years,
22 certain burdensome administrative requirements. We would have
23 to go through annual reporting to the Court on our compliance
24 with the consent decree. We would, no doubt, be required to
25 notify over this period of years all new members in the Institute

1 of the terms of the consent decree, and we would also have to
2 notify the CPA Societies and the State Boards of accountancy of
3 the terms of the consent decree and also the decree would be
4 perpetual in terms of its length.

5 The current rules that govern antitrust consent
6 decrees, as I understand it from our legal counsel, make it
7 very difficult to gain any real advantages through negotiations
8 in working for consent decree. First of all, a proposed consent
9 decree has to be put out for a sixty day comment period, and
10 also there is a requirement for inclusion of some form of a
11 competitive impact statement. As a result, there is not much
12 enthusiasm on the part of the Justice Department for negotiating
13 consent decrees.

14 Another consideration, and falling under the
15 likely course of events if we were to try to negotiate a
16 consent decree, is that once a Complaint was filed, the Justice
17 Department and the Court are unlikely to negotiate or defer a
18 trial pending the outcome of negotiations for a consent decree.
19 Therefore a consent decree before trial probably would result in
20 being basically a total surrender on our part, or we would not
21 get a consent decree before trial, and I suspect our members
22 would view that as a failure to follow through.

23 Again, this would probably be accompanied by
24 publicity, leading to negative impressions about the profession,
25 and would, with respect to the filing of the Complaint and in

1 connection with the consent decree.

2 Now, all of those fall under the broad option of
3 our not taking any action voluntarily.

4 What would happen if we took voluntary action to
5 eliminate the second sentence of Rule 502? Well, first of all,
6 we have at least a reasonable reason to believe that the
7 Complaint, the Complaint would not be filed if we proceed with
8 putting the issue voluntarily to a vote of our membership, the
9 likely course of events if we took such voluntary action would
10 be that we would avoid the costs that would otherwise be
11 incurred in litigation. We would avoid a consent decree which
12 carries with it the reporting requirements that I mentioned and
13 the requirements to notify new members, and, of course, the
14 State Societies and State Boards of the terms of the decree, and
15 it probably would keep us in a position where we wouldn't be
16 exposed to unintentionally violating the terms of that decree,
17 which would be fairly easy to have happen, and in which case we
18 would be in contempt of Court.

19 Also, at least the adverse publicity would
20 possibly be avoided, for whatever that might be worth, and some
21 feel that it might even result in a favorable impression rather
22 than negative, since it would be cast in terms of an
23 enlightened profession taking voluntary action.

24 Also, probably not much would be lost if we did
25 take voluntary action, because the ban is so narrow and so

1 difficult to enforce as to be worth not very much, even though,
2 I'm sure, that emotionally all of us here are not in favor of
3 having rampant solicitation go on.

4 If the members reject the proposal, it wouldn't,
5 of course, damage our defense in litigation, if we took
6 voluntary action and our members failed to vote in favor of the
7 change, two-thirds of those voting in favor, it wouldn't damage
8 our ability to defend ourselves in litigation. However, we
9 might then feel obligated to litigate the issue simply because
10 we had had our members say we do not want to voluntarily remove
11 the prohibition. We wouldn't necessarily have to litigate even
12 if that were to happen, because if a Complaint were filed this
13 Council could enter into or give approval to our entering into
14 a consent decree, again, at any stage, assuming we could
15 negotiate getting a consent decree at any stage.

16 Otherwise, again, if the members rejected the
17 proposal, we would have some of the same disadvantages that we
18 would incur as we would if we do nothing and we wait for
19 litigation. That is, we would incur the cost of litigation, we
20 would incur the adverse publicity, and we would probably wind up
21 without any -- really any great benefit, even if we were to win
22 the litigation.

23 So the Board of Directors' conclusion was really
24 as follows, that while the Board was in great sympathy with the
25 view that we would far prefer to have some restraints on

1 solicitation, that the Board felt that the legal defense would
2 very likely not be successful, and even if a legal defense were
3 mounted and even if it were successful, that we still would
4 wind up with no legal benefit because of the narrowness of the
5 ban, and the difficulty of enforcing it. The narrowness in
6 light of the fact that we are already permitted to advertise and
7 otherwise solicit, and the Board felt that the costs involved
8 would far exceed, therefore, any possible benefits that would
9 come from the litigation, so the Board, again, concluded that we
10 probably should not litigate, simply to make our members happy
11 as a political expediency.

12 Those, I think, are a fair representation of the
13 reasoning process to which the Board went in reaching its
14 conclusion to recommend to this Council that we submit the
15 proposal to a vote of the membership.

16 CHAIRMAN SCOTT: Thank you, Wally, for a very
17 clear and concise outline of the alternatives that face us in
18 this issue.

19 We felt that it would be beneficial for the
20 Council to have that background information as we get into this
21 deliberation. And now, I'd like to ask Louie Craco if you will,
22 to make a statement with regard to the impact of this on the
23 Justice Department and some other legal aspects involved.

24 MR. CRACO: Mr. Chairman, when this group
25 gathered in Cincinnati last year, it had before it a rule which

1 did not include the last sentence, as you recall. It took a
2 good amount of time in the morning in debating the question of
3 whether a one-on-one solicitation provision should be added into
4 the rule as proposed, because as Mr. Oliphant put it, there
5 might be circumstances in which the public interest is served
6 by a sentence which would deny a one-on-one approach to
7 solicitation.

8 With regard to the position that was before you
9 in Cincinnati, the proposal had been that the prohibition of a
10 one-on-one oral solicitation be included as a guideline without
11 being expressed in a rule, and it was with reference to that
12 that we opined last year that we thought two things: First,
13 that the direct one-on-one solicitation, there were defensible
14 circumstances in the public interest against overreaching, and
15 was actually defensible under recent rulings on antitrust laws;
16 and secondly as a guideline rather than as a specific portion of
17 the rule, the appetite of the Justice Department to challenge it
18 might be substantially abated.

19 As the rule emerged from the draftsmanship over
20 lunch, it came out rather broader than the one on which the
21 discussion had occurred in the morning, saying nothing really
22 about the limitation to oral to distinguish it from all other
23 kinds of communication, thus broadening its reach somewhat, and,
24 of course, it did become part of the rule.

25 Now, those developments taken together with the

1 intervening events of some significance led us to the view that
2 the opinion which we had given to the Board that the rule as
3 presently written probably could not stand a challenge by the
4 Department of Justice, and that such a challenge has been
5 eminently threatened.

6 Let me brief you a little bit on what those
7 developments have been: In this year there have been three
8 major decisions by the United States Supreme Court which touch
9 on this issue. Two of them arising under a constitutional
10 grounds where State authorities are tempted to preclude
11 solicitation by lawyers and which provide an interesting insight
12 into the analytics employed by the Supreme Court in balancing
13 the public interest in favor of free speech on the one hand and
14 against overreaching on the other. We have discussed those
15 two cases, the Ohralik and the Primus cases in the material
16 which you have and I don't plan to spend any more time on that,
17 because they are not as pertinent to the present consideration
18 as the third case is, and that's the National Society of
19 Professional Engineers case, which was not a solicitation case
20 at all, but a competitive bidding ban by the engineers' society.

21 Last year, as I indicated to you, the substance
22 of the case was over this question, are there concerns in the
23 public interest which make it reasonable to inhibit this form of
24 competition among accountants, public interest concerns against
25 overreaching, against misleading information in circumstances

1 in which it's particularly difficult to police it,
2 considerations of that character.

3 The learning that the Engineers case contributes
4 to that debate is disturbing, and changes the rules of the case
5 rather substantially, because the Court, in proceeding on a
6 "Rule of Reason" analysis analyzed the prohibition against
7 competitive bidding on the basis of whether it was or was not a
8 reasonable one on three separate occasions stated the issue, and
9 finally stated the conclusion in terms which show what, I think,
10 is a substantial difference from what we were talking about last
11 year; and since it defies successful paraphrase, I want to read
12 you short excerpts: At the very beginning of the opinion the
13 Court defined the issue, the analysis under the Rule of Reason
14 in these terms, it focuses, that is the Rule of Reason analysis,
15 focuses generally on the challenged restraint's impact on
16 competitive conditions.

17 The second time the Court a little later on said
18 that the Court has adhered to the position that the inquiry
19 mandated by the Rule of Reason is whether the challenged
20 agreement is one that promotes competition or one that
21 suppresses competition.

22 And finally, in coming to its conclusion, the
23 Court described two strains of antitrust analysis, one the so-
24 called "per se" theory declares on its face uncompetitive
25 certain kinds of activity; and the other category, the "Rule of

1 Reason" analysis and saying in the second category are
2 agreements whose competitive effect can only be evaluated by
3 analyzing the facts particular to the business, the history of
4 the restraint and the reasons why it was imposed.

5 In either event, the purpose of the analysis is
6 to form a judgment about the competitive significance of the
7 restraint. It is not to decide whether a policy favoring
8 competition is in the public interest or in the interest of the
9 members of the industry subject to exemptions defined by the
10 statute, that policy decision has been made by the Congress.

11 What that means for us is that the kinds of
12 policy implications which we were discussing last year as
13 defending as reasonable restraint on competition have now been
14 declared to be irrelevant by the Supreme Court. What now is the
15 relevant question is whether or not facts can be accumulated in
16 support of a particular rule which establishes that that rule
17 has been promulgated in order to encourage competition or to
18 produce effects on competition which are beyond.

19 It is no longer a pertinent consideration whether
20 there are matters extrinsic to the competitive dynamics that
21 make it undesirable to have competition about this subject or
22 this kind of competition.

23 Thus encouraged, the Department of Justice in
24 numerous conversations with us have indicated their belief that
25 the rule as written is a violation of the antitrust law, and

1 that it is one that they intended to challenge.

2 For reasons not entirely clear to everyone, they
3 have settled their litigation against the American Bar
4 Association, leaving this august body its most likely target of
5 exemplary litigation, and they intend to bring it.

6 We have discussed with them whether or not a
7 limitation of the ban to oral direct solicitation would so
8 narrow the limitation on competition by solicitation as to
9 satisfy them, and they have expressly told us that it would not.
10 They still regard the ban on oral solicitation as a restraint on
11 trade, which it plainly is on its face, and is one which is over
12 broad.

13 Now, in that circumstance, it's our view that
14 unless there existed a body of consistent facts with which we
15 could demonstrate to the Department of Justice and subsequently
16 to the Courts that the purpose and effect of the last sentence
17 of 502 was to encourage beneficent competition, we would not
18 succeed in defending the challenge to it.

19 I recognize that forms of words that can be
20 developed that would explain the rule in those terms, and I have
21 developed quite a few of them in the course of these discussions.
22 The problem is that there does not presently seem to exist a
23 body of facts which would interpret the history of the rule in
24 those terms, or the purpose of the rule's continued continuity
25 in those terms.

1 So our conclusion is that whereas last year we
2 were estimating the likelihood of the Department of Justice
3 intervention, we now assure you it will be brought, and if
4 brought, the facts that are presently under submission will not
5 support the defense consistent with the determination of the
6 Supreme Court in the Engineering case.

7 One last thing. Its arguable litigation could
8 be mounted to defend this thing, and if, in the long run, you're
9 defeated in it, you'll be no worse off than if you remove the
10 ban voluntarily now, but one thing that your president brought
11 to your attention is worth emphasizing from the legal
12 standpoint: The National Society of Engineers lost more than
13 their anticompetitive rules in their litigation, they lost the
14 right to discourage their members from entering into the
15 activity prohibited by the society for from expressing or
16 stating or implying that competitive bidding is unethical.
17 That was charged in the Supreme Court as a violation of the
18 First Amendment Free Speech Right, of the Society, and with the
19 single dissent of the Chief Justice, that was rejected. So
20 what you have to lose beyond what you surrender by withdrawing
21 the last sentence of the rule voluntarily is the entire
22 structure of discouraging expression that you might otherwise
23 bring to bear on the behavior of your members by indicating
24 that while it's not prohibited by explicit rule, solicitation,
25 or this kind of behavior, is frowned upon.

1 Those are the considerations that have led us to
2 provide the opinions that are before you, and of course, I'm
3 available to answer any questions you may make.

4 CHAIRMAN SCOTT: Thank you, Louis.

5 With that as a background I'd like to ask the
6 Council to take up agenda Item 8, which is a proposal to
7 approve a mail ballot of the membership seeking to repeal the
8 encroachment rule.

9 This is perhaps the easier of the two to deal
10 with, since all of the antitrust considerations that apply to
11 the solicitation rule apply to the encroachment rule as well,
12 and in addition the encroachment rule is inconsistent with Rule
13 502 and is deemed to be unnecessary by the Ethics Executive
14 Committee.

15 There is a form of resolution in your kits which
16 provides, and I'll read it:

17 "The Council having been informed that the
18 Board of Directors and the Division of
19 Professional Ethics have concluded that
20 Rule 401-Encroachment is inconsistent with
21 Rule 502-Advertising and Other Forms of
22 Solicitation adopted by the membership in
23 March 1977, and those bodies having
24 recommended its repeal, it is hereby
25 RESOLVED: That the Council approves a mail

1 ballot of the membership proposing to delete
2 Rule 401-Encroachment from the Rules of
3 Conduct."

4 Do I have a motion to put this on the floor for
5 consideration?

6 FROM THE FLOOR: So move.

7 CHAIRMAN SCOTT: Is there a second?

8 FROM THE FLOOR: (Numerous seconds)

9 CHAIRMAN SCOTT: All right. The motion has been
10 made and seconded for, in effect, the submission to the
11 membership for repeal of Rule 401, Encroachment.

12 Is there any discussion?

13 MR. DRESSELHAUS: This is the question I have in
14 the explanatory literature that came out from the American
15 Institute concerning these two items: In paragraph two, it
16 indicates there will be some language retained elsewhere. I
17 would like to know the extent and place of that retaining, and
18 I might like to speak to it.

19 CHAIRMAN SCOTT: That's a good point in question.
20 Don, can you speak to that? Clay, are you here? The Executive
21 Committee of the Ethics Division has suggested there would be
22 some interpretations issued that would address the points that
23 you are asking. Clay Ostlund, Chairman of the Ethics Committee.

24 MR. OSTLUND: Yes, there is a numbered paragraph
25 under Rule 401 of the Codes -- I don't have it with me -- and

1 included in accounting principles where it requires now that if
2 your audit client wants to come to me and gets an opinion on
3 auditing or on accounting presentation, I must confer with you
4 before I give him an opinion. And I think the history of it
5 was to prevent a disgruntled client that doesn't like your
6 treatment from running around and finding a CPA that would
7 concur with him. That's page eight.

8 It's intended that that would be preserved as an
9 interpretation under one of the technical standards of rules, I
10 don't remember which one, it's been drafted already. If this
11 is approved, you approve removing the rule on encroachment, then
12 this interpretation would go out.

13 CHAIRMAN SCOTT: Specifically, you are referring
14 to the first numbered paragraph under the rule, I take it?

15 MR. OSTLUND: Right.

16 CHAIRMAN SCOTT: That's on page eight under Rule
17 401, that would be issued then as an interpretation?

18 MR. OSTLUND: Yes, throughout the normal exposure
19 period, ninety days, to the State Society, but we thought that
20 is something that should be preserved and we firmly believe it's
21 in the public interest to prevent clients from being able to run
22 around and shop for the presentation they want.

23 MR. DRESSELHAUS: I probably wasn't selective
24 enough, I was referring to the next item, consolidated statement
25 I might as well get my speech made right now. I assume the

1 answer will be substantially the same.

2 CHAIRMAN SCOTT: Let's see what Clay has.

3 MR. OSTLUND: Essentially the same, we are not
4 sure in today's climate you even need Item 2, we can envision,
5 if you have an audit of a parent company in today's litigious
6 environment and responsibility we think a CPA could insist on
7 auditing any segment of that he felt necessary. It's so well
8 know a fact you don't have to state it, I don't think there
9 would be any problems stating it, we weren't sure it was
10 necessary any more.

11 MR. DRESSELHAUS: I feel the same way, and I
12 prefer it not be stated.

13 MR. OSTLUND: That was the feeling of the
14 Executive Committee.

15 CHAIRMAN SCOTT: That addresses your concern.
16 Any other discussion? Yes?

17 REINHARDT H. BECKMEYER (St. Louis, Missouri): My
18 question is addressed to Wally Olson: And this is probably
19 parallel to the Section problem a year ago, where Council
20 deliberates here in a meeting and hears all of the facts and we
21 might be able to make a practical decision, how does the
22 Insititute intend to inform the membership so that they would
23 have the advantage of the majority of this discussion if this
24 were to be passed on the floor?

25 PRESIDENT OLSON: In any ballot we submit to a

1 vote of the membership, we're required to give pros and cons,
2 and I believe, Don, is that still in the by-laws? We would do
3 it in any event, whether it were required or not. We would
4 certainly give as complete an analysis to the members, along
5 with the notice of the ballot -- of the issue, as we could.
6 We'd do our best to present that as objectively as we could and
7 spell out all of the alternatives. I tried to spell out the
8 alternatives, I tried to earlier.

9 SECRETARY SCHNEEMAN: That's essentially right,
10 when we presented the competitive bidding proposal to the
11 membership, we included, as well, the full text of the opinions
12 of legal counsel on the issues. I am sure we would do the same
13 thing again on this.

14 W. IAN A. McCONNACHIE (State of Washington): I'm
15 maybe not permitted to talk here, I'm one of those prospective
16 incoming Council members.

17 CHAIRMAN SCOTT: You have the right of the floor.

18 MR. McCONNACHIE: I have just become acquainted
19 with that question, and in the real estate investment business,
20 I asked the simple question, are all of our CPA's in Interstate
21 Commerce? I don't know that they are. I would imagine that
22 most of them have intra-State business as well as Interstate
23 business, yet I would observe that there are probably many
24 smaller CPA firms that do nothing but intra-State business and
25 are subject, as I understand -- I'm no lawyer -- to the

1 jurisdiction of the State in which they are doing business. It
2 could be that intra-State business could be judged as being
3 still under the jurisdiction of the State.

4 I raise the general question that we may be
5 creating some jurisdictional questions, even though we are a
6 National Institution, about the State CPA Societies, staying in
7 their own States and maybe under the State law, and I question
8 if the antitrust division might, in the State of Washington, for
9 example, if the CPA Society wanted to retain its provisions,
10 restricting it to those intra-State, it might or might not be,
11 I'm not sure, whether the anti-trust division has the authority.
12 In the Tax Division there is major business across State lines,
13 but in my business, the real estate business where we have moved
14 exclusively on State tenants we have been able to fight the
15 State law. I raise the question whether maybe we have a problem
16 of jurisdiction in which we may be causing problems when we
17 communicate with members in intra-State business. I'm not sure
18 of this.

19 MR. CRACO: Well, a couple of things in answer to
20 that question: First of all, to the extent that the agreement
21 in restraint of trade in question is a rule promulgated by this
22 body, one has only to look around you to determine the inter-
23 State commerce character of it, and that has -- there's really
24 no question about it, that something done by the AICPA will be
25 regarded as affecting Interstate Commerce in a material way. If

1 that were not clear from the circumstances that I have just
2 suggested, the Goforth case in the Supreme Court, dealing with
3 lawyers' vulnerability to antitrust laws in respect of their
4 minimum fee schedules for, of all things, in regard to the
5 question of real estate title, was sustained on a challenge
6 based on the fact that lawyers can go down to the courthouse and
7 look at property records and they are plainly not engaged in
8 Interstate commerce. So the Supreme Court said, "Oh, yes they
9 are, they have to do with the ability of people to move back and
10 forth among States and what have you." To the extent that any
11 of you have any publicly held clients who are engaged in any
12 kind of regulated activity, that would a priori apply to you.

13 So it seems that the possibility of avoiding this
14 on the grounds that it is not -- that there is no jurisdiction
15 under the Sherman Act to enforce the act against the activities
16 of either the Institute or against accountants aggregated in
17 some other kind of institution some place else are rather remote,
18 indeed.

19 Finally, I should note if the resolution were
20 promulgated, that is, the anti-solicitation resolution were
21 promulgated not by a private society, not by the Institute, but
22 under color of State law by a State Board, for example, our
23 judgment, on somewhat different grounds, would be no different
24 from it's already been. That no longer implicates questions of
25 antitrust law as we see it, because of the exception of the

1 State in regulatory activities from the anti-trust law, but the
2 two other cases I didn't think important enough to discuss
3 before, which are State regulations of solicitation, in that
4 case by lawyers, set out guidelines with respect to the First
5 Amendment implications of that, which I think very plainly
6 would indicate that any such regulation promulgated under color
7 of State law not survive scrutiny. In those cases, not to dwell
8 on them unduly long, in one case, the Ohralik case, sustained a
9 ban on solicitation under circumstances of the most classic and
10 egregious kind of ambulance chasing; the other case, the Primus
11 case, condemned as violative of the First Amendment a polar
12 opposite kind of solicitation in writing for purposes of
13 political association.

14 The Court pointed out there is a wide range of
15 solicitations that lie between those polar extremes that are
16 hard to assess, but it's our judgment that the likelihood of the
17 in-person solicitation of which accountants are afraid would be
18 protected, whether it's the hospital bedside solicitation of
19 injured minors as it was in the Ohralik case, and thus sustained
20 a prophylactic ban on all such solicitations is hardly the
21 point, what we would have to do is establish a body of facts
22 indicating that the rule is procompetitive in order to sustain
23 a narrow prophylactic rule, and we don't know of any such body
24 of facts, and none has been pointed out to us.

25 CHAIRMAN SCOTT: Further discussion? Are you

1 ready for the question?

2 ROBERT A. HARDIN (South Carolina): We're
3 talking about Rule 401 right now, but I question the
4 procedural appropriateness or legality, if you wish, of the by-
5 laws of repealing an ethical rule and then turning and having
6 an interpretation issued to do the same thing. Why not keep
7 the rule? Rule 401 could be rewritten to get rid of the
8 solicitation elements in it and retain the steps of sub-
9 paragraph one of Rule 401 without turning to ballots on
10 solicitation or anything else. Just a thought on that.

11 MR. OSTLUND: As to the legality, whether we can
12 do it, I refer to Don Schneeman. My own personal view, under
13 the numbered paragraph under one is of rather narrow scope in a
14 specific situation, whereas I thought our Rules of Conduct were
15 more of a generalized nature. I don't really care where it
16 stays, it would be a very narrow rule and I would think the
17 interpretation would serve the purpose just as well.

18 Don, as to the other question of whether we're
19 doing it right in the by-laws, I refer that to you.

20 SECRETARY SCHNEEMAN: I just had a quick
21 conference with Lou Craco. I think our feeling would be that it
22 is appropriate for us to put this question to the membership,
23 what we're seeking is to remove the rule so as to avoid an
24 attack by the Justice Department. What we are suggesting is
25 that while Justice is intently looking at this rule as a rule,

1 they would not look as intently at it if it was an
2 interpretation under the technical standards rule, and we have
3 raised this informally with them in our discussion. While they
4 didn't say "Yes, you can go ahead and do it," they did not
5 recoil in horror, so we think we can do it.

6 CHAIRMAN SCOTT: Any further discussion?

7 RONALD S. KATCH (Chicago, Illinois): I wanted to
8 get up and speak on the basis of the last couple of years, we
9 look around and we find that more and more of our rights, not
10 only as citizens of the United States, but as members of this
11 profession, are being removed, and here we come again this year,
12 and there's a couple of more items that we are asked to remove
13 from that which makes us a professional on the basis of the fact
14 that the government, in this case the Justice Department, is on
15 our tail again, and once again we are asked "Okay, rather than
16 fight, rather than get up and say 'Hey, enough is enough, we
17 want to be treated as we feel we should be treated and we want
18 to be recognized as a profession,'" we put out tails between our
19 legs and start running again, because it's the easiest thing to
20 do and the less costly thing to do.

21 I don't know, at some point in time, if this
22 should continue -- and there's every appearance that it will --
23 at some point, we are going to have to stand up and say "Hey,
24 enough is enough," and I don't know that this may not be the
25 time, because if the slow erosion continues to occur, at some

1 point we'll have nothing to fight with any more.

2 We talked about enforcement, and I'm beginning
3 to wonder who is in charge of enforcement in our lives. It
4 seems to me that we're saying that enforcement is not up to us
5 as members of an organization, but enforcement is up to the
6 federal government, that they decide what it should be and when
7 it should be. I don't know that cost should be a factor,
8 because the American Institute of CPA's exists for the members
9 and not for the government, I don't believe, and if it's going
10 to cost us a lot of money in order to defend ourselves at some
11 point, so what? That's what we pay our dues for. And when we
12 take a look and have a surplus of over a million dollars this
13 past year and a projected budget surplus of over a million
14 dollars in the succeeding year, it doesn't scare me whether or
15 not the cost factor is going to be substantial.

16 We also talk about the publicity, and what type
17 of negative publicity would be effected in terms of the
18 profession. I'm beginning to also wonder whether or not every
19 time we run with our tails between our legs, if that's good
20 publicity, or if we don't appear as the accountants with the
21 green eyeshade from many years ago. I think the public would
22 like to see somebody's stand up for a change, and say "Hey,
23 government intervention, that's enough."

24 As far as we're not being able to provide
25 ourselves with what is termed a present body of facts to

1 support our position, I also wonder what kind of present body
2 of facts the government can present, the Justice Department can
3 present in terms of saying what we are presently alledgedly
4 doing that does not provide competition. How can they show
5 that it would provide better competition? For certainly, if you
6 take a look around at what they did to the securities industry,
7 the number of securities dealers that exist today are a fraction
8 of what existed five years ago, and that's exactly what's going
9 to happen to us.

10 (Applause)

11 CHAIRMAN SCOTT: Any further discussion?

12 FROM THE FLOOR: Question!

13 CHAIRMAN SCOTT: The question has been called.

14 All in favor of closing debate -- no, no -- parliamentarian?

15 SECRETARY SCHNEEMAN: The question is called, you
16 take a vote.

17 CHAIRMAN SCOTT: Vote on the question of whether
18 to take a vote.

19 FROM THE FLOOR: The question has not been moved,
20 but called.

21 FROM THE FLOOR: You called for a question on the
22 resolution.

23 CHAIRMAN SCOTT: All right, the question has been
24 moved, then I'll rule the vote now is to be taken on whether
25 debate should be closed. Not voting on the motion itself, but

1 on the move to close the debate.

2 All in favor of closing debate on this point,
3 say aye.

4 (Response from floor)

5 CHAIRMAN SCOTT: Any opposed?

6 (Response from floor)

7 CHAIRMAN SCOTT: It takes two-thirds majority to
8 close debate, I don't believe we had a two-thirds majority.
9 Debate is still open.

10 JAMES A. HERBERT (Omaha, Nebraska): I share
11 some of the philosophical ideas that were expressed by the
12 previous speaker, but I don;t think they're at odds with what is
13 being proposed by Council, that is, submitting it to the
14 membership for their approval. Because I think if membership
15 votes on the resolution, they are saying they are willing to pay
16 the cost of carrying out the philosophical ideas that were
17 expressed by the previous speaker.

18 CHAIRMAN SCOTT: Thank you. Someone raised their
19 hand in the back?

20 BERT N. MITCHELL (New York, New York): I'd like
21 to speak to the whole conceptual nature of the resolution and
22 deal fundamentally with the issues. Someone mentioned before
23 that we've gone over this a number of times. I think the
24 reason we're going over it a number of times is because we are
25 not dealing with the substance of the issue, and the issue is

1 whether there isn't something falacious about the notion that
2 there should be no advertising or solicitation by a profession.
3 If, in fact, we were in a strong position with this item in our
4 by-laws, we wouldn't have to be running away from the Justice
5 Department on any challenge on the issue. The reason that we're
6 running is because fundamentally the concept is unsound, and I
7 believe it's good for the profession to have competition, and
8 any kind of rule in the Code of Ethics that says we should not
9 have competition I believe is probably a bad rule. So I think
10 the issues should be dealt with not from what the Justice
11 Department thinks about this, but whether fundamentally it's a
12 good rule or principle for a profession to have, and I take the
13 position that it's unsound and cannot stand the test over any
14 period of time.

15 We have had it long enough to see its virtues,
16 but we have never gone below the surface and examined the issue
17 and the problem. If we had we'd have taken it out of the Code
18 before the Justice Department is forcing us to take it out of
19 the Code.

20 I don't care how you want to vote on it, it's an
21 issue that will go away, whether we get rid of it out of the
22 Code or whether the Justice Department is going to get rid of it
23 out of the Code, or the members practicing in the profession
24 would be restricted if, on the one hand, it stays in the Code
25 and we say to certain members we have to go by the Code and

1 other members of the profession say it's not a good issue, can't
2 stand the challenge and they can do whatever they want to do
3 and let the burden of proof be on the Institute to take that to
4 Court. We're going to lose issue anyway, so fundamentally I
5 think we have to get it out of the Code of Ethics, period,
6 without regard to the Justice Department's position.

7 CHAIRMAN SCOTT: Thank you, Bert. Any further
8 discussion?

9 Are you ready for the question?

10 All in favor of the motion to submit to the
11 membership for a mail ballot the removal of Rule 401,
12 encroachment, if you are in favor of that motion, say aye.

13 (Response from floor)

14 CHAIRMAN SCOTT: Any opposed?

15 (Response from floor)

16 CHAIRMAN SCOTT: The ayes have it, the motion is
17 carried. That will be submitted to the membership for a mail
18 ballot.

19 Now, let's turn to Item 9, the Advertising and
20 Solicitation Rule, and this is to authorize a mail ballot of the
21 membership seeking to repeal the second sentence of the
22 Advertising and Solicitation Rule, Rule 502, appearing on page
23 nine of the booklet.

24 The resolution with regard to this reads as
25 follows:

1 "RESOLVED: That the Council approves a mail
2 ballot of the membership proposing to delete
3 from Rule 502 - Advertising and Other Forms of
4 Solicitation, the sentence: 'A Direct
5 uninvited solicitation of a specific
6 potential client is prohibited.'"

7 Do I have a motion to place this on the floor
8 for discussion?

9 FROM THE FLOOR: So move.

10 CHAIRMAN SCOTT: Second?

11 FROM THE FLOOR: (Numerous seconds)

12 CHAIRMAN SCOTT: The motion has been made and
13 seconded, we're already for a discussion of this item.

14 JOSEPH E. TANSILL (Chicago, Illinois): I don't
15 like to be perceived as someone who tilts at windmills, and I
16 don't think that I am. I have no wish to keep this Council from
17 an early adjournment to view the San Francisco sunshine, if any,
18 but I nonetheless rise in opposition to the motion.

19 I have considered the arguments both in writing
20 and as expressed orally here this morning in favor of the
21 proposition. I have considered the opinion of our legal counsel,
22 and I respect it, although I do not regard it as forthright, and
23 perhaps it cannot be more forthright.

24 I have heard nothing in favor of a retention of
25 the ban on solicitation, and the arguments which might be

1 adduced to say that it, in fact, promotes competition. I am
2 concerned about the effect on practice units, particularly the
3 smaller practice units represented in the Institute and in the
4 profession throughout the country if there is a removal of the
5 ban. It may be that the membership, by and large, will
6 continue to honor it in principle, the principle of the ban,
7 even if it were removed. I don't know what the removal might
8 do to what I importantly regard as the mutual trust, the
9 camaraderie and interaction of practicing CPA's who may be in
10 competition with one another, but who have regarded their
11 competition as an honorable one.

12 I am not disposed to say simply because the
13 Justice Department wants us to that we will voluntarily accede.
14 I think that is maybe idealistic, but I think our honor and
15 dignity as professionals might be better served by being forced
16 to drop the rule rather than by giving it up voluntarily.

17 For these reasons, ladies and gentlemen, I rise
18 in opposition to the motion.

19 CHAIRMAN SCOTT: Further Discussion? Bert?

20 BERT B. WEINSTEIN (Chicago, Illinois): If it
21 seems like only those of us from Illinois are monopolizing the
22 discussion, I apologize in advance.

23 I would like to add a little different
24 dimension to the problems that arise if we supported this
25 motion. A good deal of what I say I learned at a meeting of

1 NASBA which was addressed by the first assistant Attorney
2 General of the great State of Texas, the home State of our
3 Chairman, Mr. Scott. David Kendall was a member of the New
4 York Bar now practicing in Texas, and I think Texas has a
5 reputation for not exactly knuckling under to the federal
6 government at the first drop of the hat.

7 Mr. Kendall told us at the meeting of NASBA,
8 discussing the very same cases that our legal counsel here
9 discussed, that he places a little different interpretation
10 upon the Supreme Court case. For example, in the Ohralik case,
11 lawyers have a way of saying bad cases make bad law, and it was
12 his opinion that the type of ambulance chasing which was the
13 case in Ohralik was making really bad law, in that the Court
14 affirmatively said, and our Council, Mr. Craco said the same
15 thing, that one-on-one solicitation could be prohibited.

16 Now, I wish David Kendall were here, because I
17 don't have enough knowledge to enter into a legal debate or a
18 legal discussion, but it might be interesting for the members
19 here to hear what Mr. Kendall did say in putting this into
20 focus, and if it seems I'm going about it in a roundabout way,
21 how it's going to affect our relationship of our National to
22 State Societies and State Boards, that's a very key thing.
23 Other speakers have alluded to it, if we go ahead with this we
24 could destroy the National character of our profession. The
25 advertising rules, as Mr. Kendall explained it and the

1 prohibition were under the free speech of the First Amendment.
2 The Congress adopted and has the right under the Constitution
3 to adopt rules regulating Interstate commerce, that's where we
4 get our antitrust thing. The gentleman from the State of
5 Washington mentioned that. But the Tenth Amendment to the
6 Constitution reserved to the States all powers not otherwise
7 apportioned under the Constitution, our federal Constitution,
8 to the federal government. It is under the Tenth Amendment that
9 the States have rights and have a means of defending themselves.

10 Now, the State of Texas, on behalf of the State
11 Board of Accountancy, is engaged in litigation respecting its
12 rules with the federal government, the antitrust department, and
13 they're right now before the Fifth Circuit, the Fifth
14 Appellate Circuit of our federal judiciary system.

15 Now, the largest segments of our members are in
16 public practice, and if you look at your annual report you will
17 notice that 65.6 percent of our members in public practice,
18 which are eighty thousand-odd, come from firms with less than
19 the largest twenty-five firms, which means that that's
20 approximately fifty-three thousand of our members, or the
21 largest single segment of our profession; and I would submit,
22 as Ron Katch, my colleague from Illinois stated, that there is
23 nothing wrong with making our members happy.

24 I don't know that it's necessarily a political
25 expediency, there is nothing wrong with spending the money of

1 this Institute in a manner that the greatest single block of
2 members would like it to be spent.

3 Some of us feel that -- and this has particularly
4 been expressed by the smaller firms below the twenty-five
5 large firms -- that the deletion of this rule would work two
6 ways. One, it would make it easier for the concentration of
7 further larger practice units on the one hand, and the anomaly
8 is that on the other hand, since the unsolicited invitation
9 would make it impossible for an individual not qualified to go
10 and solicit another individual CPA's client, so they are going
11 to be hit, they feel. I'm not expressing this as my opinion,
12 this has been expressed to me.

13 By the way, we have had chapter meetings in
14 Illinois that have unanimously voted against the dropping of
15 the solicitation rule, not by the large firms, by small firms,
16 and their feeling is that since this one-on-one solicitation
17 can't be monitored as public advertising can that it is
18 something that they really feel is a threat.

19 Now, if we pass and submit this rule and the
20 membership approves it, you're absolutely going to break the
21 joint enforcement procedures that we have strived to maintain,
22 because if the Institute has one set of rules, the State
23 Societies, I can assure you -- and I would think that Illinois
24 would be one of them for sure -- will adopt a rule which will
25 be different than the National rule, and that National rule will

1 then be different and we won't be able to have a joint
2 enforcement procedure. And even if it isn't done by the
3 professional associations, under the State Police power
4 authority of the Tenth Amendment, the State Boards of
5 Accountancy will adopt it. The members of NASBA, which, as you
6 know, is the organization of State Boards of accountancy, I can
7 assure you that from the meetings that we just concluded
8 yesterday -- and forty-six of the fifty-four jurisdictions were
9 represented, by the way -- are all speaking if the Institute
10 breaks this rule, certainly the State Boards are going to
11 continue with it and enforce it, and if that occurs we will be
12 destroying the national character of our profession.

13 Sombody talked about the burdens of financial
14 cost on the matter of pursuing this. I think that's one of the
15 best ways on the part or the largest segment of our membership
16 that we can spend the money of the membership, and accordingly
17 I would urge the defeat of this motion.

18 CHAIRMAN SCOTT: Further discussion?

19 P. MARTIN ELLARD (Gainsville, Georgia): Anytime
20 Georgia and Illinois can get together like that, I've got to
21 take one minute and echo their thought. I think we're making
22 progress when Georgia and Illinois are together. We recently
23 had a meeting of the annual accounting Institute at the
24 University of Georgia, about three hundred members there, we
25 took a poll there, it was unanimous that the members were

1 opposed to this change.

2 It's apparent to me that most of our members do
3 not want to change it, even if the Board of Directors say that they
4 think it's a good idea.

5 Well, I think we have come to the time when one
6 hundred forty thousand CPAs have got to stand up and tell the
7 federal government that we think that this is right. I think we
8 have the funds to defend ourselves if the suit is brought up,
9 so as one member from Georgia, I would like to urge we do not
10 approve this change.

11 I started out as an individual with no clients
12 and felt like I did it adequately, and I think people can do
13 that this way still, and I think it's in the public interest
14 that we don't have our CPA firms going directly and unsolicited
15 to the clients of other CPAs seeking business.

16 We have opened the door about as wide as we can
17 open it through the television media, there are all kinds of
18 ways to advertise now, and this is the only thing we have got
19 left. If we give this up, we might as well divide up the
20 surplus we have and go home.

21 CHAIRMAN SCOTT: I would like to ask Lou Craco
22 just a minute to respond to a point or two that Bert Weinstein
23 made in connection with NASBA.

24 MR. CRACO: This puts me in a very awkward
25 position, because I don't want to be in a position of either

1 soliciting or repudiating the possibility that I might acquire
2 the surplus that your're willing to divide among the members.

3 I think a couple of things were said during the
4 course of the remarks of the next previous speaker that perhaps
5 ought to be commented upon.

6 First of all, what you do or what your membership
7 does is not, of course, governed by the Tenth Amendment at all.
8 You are a provate organization, and what you do will be governed
9 by the antitrust law. It is perfectly clear, I think, even to
10 everybody here, that if a cement association made a rule to
11 prohibit salesmen from calling upon customers one-to-one, there
12 would be no more obvious kind of restraint on commerce and on
13 trade. The question, therefore, is whether your status as a
14 learned profession exempts you from the stricture which would
15 otherwise attach to that behavior under antitrust laws, and our
16 advice, as forthrightly as we can put it to you, is that the
17 question has been decided by the Supreme Court of the United
18 States adversely to any significant distinction between you and
19 the cement association in that behavior. You are governed by a
20 rule of reason which allows you to show that that rule in fact
21 encourages rather than discourages competition, whereas perhaps
22 the cement association would not be, but apart from that the
23 antitrust strictures on you do not require the Department of
24 Justice to show that the rule is anti-competitive, beyond
25 showing the natural force and effect of the rule as it stands.

1 As far as the States are concerned, the State
2 Boards of licensing are not governed by the antitrust laws, they
3 are governed by considerations emanating from the First
4 Amendment to the Constitution, and that question has been passed
5 on by the Supreme Court of the United States on at least two
6 separate occasions. In Gates against Arizona, where the learned
7 profession was the law, the ban promulgated by the State Board
8 on advertising was stricken down as a violation not of the
9 antitrust laws, but of the First Amendment, and in the Primus
10 case, which was a solicitation case by lawyers, the ban against
11 sollicitaion was stricken down on the fact there is a violation
12 of the First Amendment.

13 The Tenth Amendment does protect the States
14 against regulation, which is why the antitrust laws don't apply
15 to it, but it does not exonerate state behavior, or the behavior
16 of organizations acting under color of State law either from
17 things that they are prohibited from doing by the expressed
18 terms of the First Amendment, or from the powers which have been
19 delegated to the national government, such as the regulation of
20 interstate commerce.

21 As far as the Texas Board is concerned, I don't
22 want to comment very far beyond the fact that that case is in
23 the Fifth Circuit to which reference is made, it is an appeal by
24 the Texas Board from a determination of the District Court in
25 Texas that the competitive bidding rule of the Texas Board,

1 long since abandoned by this body by consent decree, was a
2 violation of law, and striking it down.

3 What the Fifth Circuit will do with that remains
4 to be seen, and I'm a little chary of commenting on it, because
5 there is an existing case in Texas in which this Institute is a
6 defendant on somewhat similar grounds, and your Honorable
7 Chairman is an individual defendant in the case, and I have the
8 honor to defend your interests and his in that litigation. So I
9 don't want to go too far in my speculations as to the Fifth
10 Circuit. Suffice it to say at the moment the only law that
11 exists towards a solicitation ban of any character is the
12 Ohralik case under the First Amendment which, for considerations
13 which had nothing to do with competent solicitation, but over-
14 reaching, on the facts there, a ban on solicitation on a bad set
15 of facts, and maybe bad law was sustained, but that's the only
16 solace that exists in the law at this point, our advice under
17 those circumstances is that neither State regulation under the
18 First Amendment and the generality of cases to which accountants
19 might be imposed are clearly under the antitrust laws and the
20 provision against solicitation is not one I can't say we would
21 be successful to defend.

22 CHAIRMAN SCOTT: Thank you. Norm raised his hand
23 first, then Wally Olson.

24 MARVIN L. STONE (Denver, Colorado): I have the
25 timidity to stand here, though I'm not from Georgia or Illinois,

1 but I thought some outsider should speak his piece. To put this
2 subject in proper prospective, let me tell you of a parable
3 concerning the Ten Commandments. They were, I understand, first
4 offer to the Mesopotamians by God when he suggested to the
5 ruling monarch of Mesopotamia what they contained, and they had
6 such rules as "Thou shalt not steal," the monarch suggested they
7 just wouldn't apply in Mesopotamia.

8 He then tried Babylonia with a similar lack of
9 success, because when he offered the rules there and suggested
10 they contained such precepts as "Thou shalt not commit adultery,"
11 the then reigning monarch of Babylonia thought it would be
12 difficult to enforce.

13 God then offered the same set of Ten Commandments
14 to Moses, and I'm told that Moses' only response was "What is the
15 cost?" And God says "They are free." He says, "I'll take ten."

16 (Laughter)

17 I suggest to add some relevance to our discussion
18 here, because there seems to be an aura built up around a rule
19 by which all of us have followed our professional careers since
20 we entered accountancy, an aura that perhaps some of these rules,
21 just because of the hoary nature, or the fact that they have
22 been around forever, that they're somehow God given, not man
23 made.

24 Let's remember they are man made, despite the
25 fact that I stand here with no joy in my heart, no enthusiasm

1 for what is likely to ensue if we eliminate the rule. I still
2 feel the practicality as suggested to me of a course of action
3 that we follow our legal counsel and not necessarily endow him
4 with a million dollar surplus which he had neither asked for
5 nor suggested that we give him.

6 We are faced with a development in society which
7 suggests that this is not a rule which is defensible, whether
8 it's based upon Bert Mitchell's suggestion that there is just no
9 real foundation on which we can logically uphold it, or whether
10 there are other sociological trends, I'm not smart enough to say;
11 but I am aware of the fact that it's hit us on all sides, and
12 even though all of us are very comfortable with the kind of ivy-
13 covered existence we followed in the past, of excluding this kind
14 of what we feel is unwarranted competition, it is competition
15 nonetheless, and the Supreme Court has spoken in no uncertain
16 terms and here our lawyer tells us that anything which inhibits
17 competition is not going to be allowed to continue.

18 That being the case, why do we argue? We
19 argue, of course, because all of us have deep in our hearts
20 this feeling that we have been told we should act ethically;
21 all of our professional lives ethics have been equated with
22 what the rules of professional conduct say; anything
23 contrary to them makes us feel somehow we're being asked to do
24 something as basically unethical as perhaps breaking the Ten
25 Commandments.

1 I suggest they have to be placed in different
2 contexts, different compartments, they are man made rules, they
3 were made at a time when our profession was seeking to do what it
4 felt was best for the public and itself, and I think it served
5 us well and perhaps inhibited competition desirably, if there is
6 a way to do that. But whether we think so or not, it's an old
7 habit, I'm afraid we are going to have to put by, because it is
8 contrary to our whole trend of society today, not only in this
9 country, but abroad.

10 I sense in a couple of comments Bert made in
11 which he quoted others there's a feeling small firms will be
12 affected by this. I have been with a local firm through thirty-
13 one of my thirty-two years of practice and a year ago I threw in
14 my lot with one of those big fellows. I still haven't been
15 fitted for a black cap, so I still think I speak for the thirty-
16 one-thirty-seconds of my professional career. Still I see no
17 reason whatsoever for thinking that firms of different sizes
18 should have different rules. I feel no different now with a
19 large firm than I did with a small one. I feel uncomfortable,
20 upset, dismayed and concerned about the change likely to take
21 place. I don't favor it or like it, but I don't see that we
22 have any alternative, and I don't think I would feel any
23 differently had I not merged a year ago.

24 CHAIRMAN SCOTT: Thank you. Wally Olson next and
25 then the gentlemen in back asked for recognition.

1 PRESIDENT OLSON: I'd like, if I may, to just
2 kind of sharpen the issue. The issue is not whether we have the
3 funds to litigate. Clearly you looked to the financial
4 statements we currently have the funds. You might also, of
5 course, look at the five year projection when we may not have
6 the funds. That's a different matter. Apparently we do. The
7 real issue, it seems to me, is whether we believe that we can
8 prevail in litigation. If you believe that we can prevail, and
9 that's essentially a legal question, then I believe that our
10 membership would generally prefer to litigate. However, if you
11 believe that we cannot prevail and that, I believe that was the
12 conclusion of the Board, then we decide whether or not you want
13 to litigate anyway, even though you expect that you will fail,
14 and that boils down to a variety of considerations, and the
15 decision there becomes either one which is an emotional one that
16 we will feel better if we litigate, and our members will be
17 happy because we litigate; then that's a good thing and maybe
18 we should do that, and that may well be the way to go. Or you
19 can look at it as a business decision from a hardheaded
20 standpoint and say "We will not prevail, so why expend the
21 resources to go in that direction?"

22 So I think really the essential issue is whether
23 or not we think we can prevail or not. If you believe we
24 cannot prevail in litigation, then you make the decision of
25 whether you want to do it anyway, whether you want to litigate

1 anyway, for all of the reasons that were expressed by those
2 people that were speaking from Illinois, principally.

3 CHAIRMAN SCOTT: One in the back asked for
4 recognition.

5 C. RICHARD SPRIGGS (Beverly Hills, California):
6 I was also at the NASBA meeting, and I would like to comment
7 upon the remarks made by Mr. Weinstein. I'm afraid an inference
8 might be drawn from Mr. Weinstein's remark that MASBA took a
9 position on this. In the first place, NASBA has no business
10 taking a position on something in the American Institute. Also,
11 this particular subject was not addressed to NASBA, I was at
12 both the Board of Directors meeting of the old board and new
13 Board and this subject was not discussed at any time.

14 We did hear Mr. Kendall from Texas talk, and
15 probably there was a lot of discussion about it, there was a
16 quite a bit of discussion about possible enforcement, but to me
17 the cost of enforcement was in the area of substandard work, not
18 in the relationship between the licensees.

19 JERRY ENGEL (Las Vegas, Nevada): I just raise
20 a point of information: The motion calls for deletion of the
21 second sentence in Rule 502, which is followed by the statement
22 that "See Appendix D for interpretations of this rule."

23 Now, the second part of the interpretation of
24 502-3, page 17, does specifically direct itself to the second
25 sentence, and my question is, should this motion make reference

1 to Appendix D, the second half of the interpretation of Rule
2 502?

3 CHAIRMAN SCOTT: Don, what's your reaction to
4 that?

5 SECRETARY SCHNEEMAN: If the membership votes
6 the repeal of the rule, 502-3 would die automatically. Clayton
7 might respond to that if the ethics committee has looked into
8 that question. At the last Board meeting the Board also
9 discussed 502-4 and it was generally agreed to take out the last
10 sentence of 502-4, "A member or a member's firm may indicate the
11 services offered, but may not state that the practice is limited
12 to one or more types of service."

13 This is one more matter the Justice Department
14 raised with us and finds objectionable. The ethics committee
15 agrees it should be dropped.

16 CHAIRMAN SCOTT: The elimination of an
17 interpretation, as I understand it, is up to the ethics
18 committee. That can be handled through the ethics committee.

19 Phil?

20 MR. DEFLIESE: As you know, I'm former chairman
21 of this Institute and former head of Coopers & Lybrand, one of
22 those Big Eight firms, and while that makes me professionally
23 incompetent, I still have a voice and intend to use it. If you
24 recall at last year's meeting that I stepped into this fray and
25 created that sentence, and I still believe in it, and I'd like

1 to speak against the motion as it presently stands, and I think
2 perhaps there's a need for modification of it.

3 On the other hand, I do not urge a legal battle
4 to preserve it in its present state.

5 Much has been said about the problems it has
6 brought upon us, but very little has been said about why it
7 should stay there. I am presently professor at Columbia
8 University Graduate Business School, and I shudder at going back
9 to my classes next week and telling them that the Council of the
10 Institute has voted to remove the last vestige of
11 professionalism that we have, and believe me, that's what it is.

12 I have been involved with the profession over 40
13 years, and I've seen this Institute march up the hill, and now
14 down again. I saw the fight that it took to put in these rules,
15 the anticompetitive rules, and finally the big fight to create
16 the independence rule which took a long time doing, because all
17 of it was done in the interest of enhancing the image of our
18 profession. And now, suddenly, the image of our profession is
19 going to go down the drain, because you can just picture what
20 our clients are going to think about us as a profession going
21 around soliciting each other's clients.

22 Also, during this forty years, I have witnessed
23 what was once a gentleman's profession become a very competitive
24 profession. I can recall when, if a prospective client came
25 that was being serviced by another firm, the first thing you did

1 was to call the head of that other firm and tell him he was in
2 trouble.

3 Well, back in around the late '40's one or two
4 firms decided they were going to become big, and the best thing
5 to do was to be competitive, and of course, that went down the
6 drain, because all firms will have to respond in kind to the
7 kind of conduct that is necessary to survive.

8 We now have advertising and some firms have
9 begun to advertise, and one firm has announced that it's going
10 to be very competitive. I can very well see the result of this
11 rule going down the drain, that ultimately all of the major
12 firms are going to have to go out soliciting, and you know they
13 are going to solicit the clients of all of the medium sized and
14 small firms, and I don't like to see that happen, because I
15 think, if anything, all we've been doing is to make it easier
16 for the larger firms to get larger, and believe me, most of the
17 larger firms don't want that to happen.

18 So here we are. Now the real question is why do
19 we need this rule? It's the real reason why we have been
20 pushing so hard for independence lately. Independence is at the
21 backbone of this profession, and we saw it, that when the heavy
22 competition came into being among the major firms in the '60's,
23 that the effect of that competition was to erode independence,
24 and all of the debacles that this profession has had as the
25 result of that lack of independence, of standing up to a client.

1 We need this rule in order to preserve independence, basically,
2 not to worry so much about losing clients; but if there is going
3 to be direct solicitation of clients for which an audit is being
4 performed, and where that client is satisfied with the audit,
5 then obviously independence is going to be eroded.

6 Now, I would hope that this Institute could make
7 that case with the antitrust people and devise some kind of rule
8 maybe it can't be enforced under the antitrust rules, but to
9 discourage solicitation in the name of independence.

10 There must be some way out of this sort of
11 dilemma. We are very competitive right now, I have no
12 hesitation to suggest that there should be severe
13 competitiveness when a client wants to change auditors. I think
14 this is fine, I expect that, but what has happened in the
15 Supreme Court cases -- which largely affect the legal
16 profession and engineers to a certain degree, but certainly
17 legal profession -- I don't expect the big law firms to go
18 solicit clients, but I expect it fully in this profession. I
19 don't expect doctors to solicit patients, but I don't see why
20 accountants can't have a rule discouraging solicitation, maybe
21 not to enforce it, but to discourage it in the name of and in
22 the interest of independence, and that's the rule of reason I
23 think we should address ourselves to.

24 Thank you.

25 (Applause)

1 O. NEILL EMMONS (Chicago, Illinois): I hope
2 you'll forgive another Illinois speaker from getting up. I
3 think I have a little different perspective from most of the
4 speakers, I'm engaged in the securities industry, not in the
5 practice of accounting. As a member of the securities industry
6 I would certainly feel that when you say public expectations
7 have changed, this usually reflects the expectations of staff
8 members in Washington, not so much the expectation of the public.
9 It seems to me there are many examples of where the action of
10 these staff members ended up with just the opposite results of
11 what was intended, and I think we have another case here where
12 his is likely to happen.

13 I'd like to make some observations on competition
14 I'm in the corporate finance end of our industry, and as we
15 analyze companies we may wish to take to the public, one of the
16 ways we do so is to try to figure out what the key factors for
17 success are in this business, and one of the very important
18 aspects of this is in the marketing area. As you look at
19 different companies, you will find that in one company the key
20 factor in marketing may be having a distributor organization, in
21 another company, quality of product may be a key factor, but
22 most companies will tell you the quality is a key factor, but
23 there may be standards that make this irrelevant.

24 It seems to me we're talking about competition in
25 a profession, we're not talking about trying to diminish

1 competition, we are trying to talk about what the nature of the
2 competition will be, and if you eliminate the rule to prohibit
3 one-to-one solicitation, you are very likely to fall into the
4 trap of putting a premium on personal selling ability rather
5 than personal service.

6 It seems to me there is plenty of competition in
7 public accounting, there should be competition, but the nature
8 of that competition should be rendering the best service to the
9 public, not the ability of some individual, or the sales
10 department, if that should develop as a result of a change in
11 this rule, being able to go out and convince people on their
12 personal selling ability that this firm is different.

13 I think that whatever we can do to retain the
14 nature of the competition on the professional basis, we should
15 certainly do, and this rule may have to be changed slightly but
16 we certainly don't want to change the essence of it. I think
17 this prohibition is really the essence of professionalism.

18 (Applause)

19 HOWARD M. GUTHMANN (St. Paul, Minnesota): I
20 wasn't going to say anything until I heard various speakers urge
21 a vote based upon the discussion today. I'd like to urge that
22 we have not been discussing the motion, which simply is do we
23 submit this issue to a mail ballot of the members. I don't see
24 how anyone could say that something as important as this should
25 not be voted upon by the members as a whole. That is all our

1 vote is. If you vote no, you're saying it should not go to the
2 members, which I think would be would be improper. However, I
3 think the discussion is very valuable, and what you are really
4 doing is discussing the way you're going to vote when each of
5 you has the opportunity to mark the mail ballot.

6 So I suggest that it is very important that the
7 members have the right to vote, then perhaps after we have
8 approved this resolution, the chairman might ask for a straw
9 vote in this room, just asking you when you get your ballot how
10 you're going to vote and they you could see what the result of
11 the discussion has been, because we ahve really been talking
12 about how we're going to vote later, not whether we submit it to
13 the members, which I think certainly we do for a myriad of
14 reasons.

15 CHARLES KAISER, JR. (Los Angeles, California):
16 I'm confused by the last speaker. Unfortunately, the members
17 don't have the benefit of our deliberations, and I would believe
18 they might interpret an approval vote to submit the mail ballot
19 as an endorsement of the concept, and in that respect I think
20 it could be misleading.

21 If that is the way the chair rules on this issue,
22 then I think the bote itself should be that we have -- or the
23 Council has approved a mail vote, but has not commented on the
24 merits of the issue.

25 Now, is that what this vote means, the vote that

1 you propose means?

2 CHAIRMAN SCOTT: This vote really is strictly
3 just to submit it to the membership for a mail ballot. This is
4 not approval of the concept itself.

5 Now, the Council has debated the concept,
6 obviously, because that enters into it, but the submission to
7 the membership, if I read it correctly, would submit to the
8 membership the pros and cons coming from this meeting as well as
9 any other pros and cons that would be added to it, but that
10 doesn't mean that this body has taken a position in favor of
11 this motion to remove it, but only to submit it to the members
12 for vote. Am I wrong in that?

13 PRESIDENT OLSON: I am not going to say you're
14 legally wrong, I'm only going to say, Stan, that I think Chuck
15 is right, there is a strong implication in the minds of the
16 members, regardless of the legalities, that if the Council saw
17 fit to submit it to a vote of the membership, it must have
18 thought it had sufficient merit to go ahead with that vote.

19 FROM THE FLOOR: Call the question.

20 CHAIRMAN SCOTT: The question has been called, it
21 is not debatable.

22 EDWARD H. PENDERGAST (Boston, Massachusetts): I
23 think you recognized me before that motion. I'd like to know,
24 the point of the question to specifically clarify the question,
25 that the Council has specifically not made a declaration in

1 favor or against the proposal, but that they are specifically in
2 favor of submitting the proposal to the membership, which I
3 think it's significant to indicate a neutral position on the
4 part of the Council; and the second question I would like to
5 address to our counsel where we use the Bates case as one
6 reference brought up saying that the Court has ruled out an
7 antiadvertising rule of a particular State law, all I understand
8 they did was that the absolute ban on advertising was not
9 acceptable, but that there were some restrictions on advertising
10 that they would think might be acceptable.

11 CHAIRMAN SCOTT: Lou, would you respond to that?

12 MR. CRACO: Yes, they ruled out the ban in its
13 form as applied to the Messrs. Bates and Stein, they did
14 indicate when you are talking about the extent to which a State
15 can regulate commercial speech consistent with the First
16 Amendment there are circumstances in which there are compelling
17 State interests would would justify some regulation of that
18 speech. They did not exclude all forms of advertising as a
19 consequence, and obviously the oral limitation which we have
20 discussed at some length before is a situation in which the
21 Court, acting under that analysis, found the facts in that
22 circumstance justified at the kind of prohibition that the State
23 of -- I think it was Illinois -- in that situation had imposed.

24 FROM THE FLOOR: Ohio.

25 CHAIRMAN SCOTT: Further discussion?

1 FROM THE FLOOR: Move the question be called.

2 CHAIRMAN SCOTT: The question has now been called
3 closing debate. We will now take a vote on whether debate be
4 closed.

5 All in favor of closing debate say aye.

6 (Response from the floor)

7 CHAIRMAN SCOTT: No?

8 (Response from floor)

9 CHAIRMAN SCOTT: Debate is closed.

10 Now we'll move on the formal motion.

11 The motion before the house is -- let me read the
12 resolution.

13 "On recommendation of the Board of Directors,
14 it is

15 RESOLVED: That the Council approves a mail
16 ballot of the membership proposing to delete
17 from Rule 502 - Advertising and Other Forms
18 of Solicitation, the sentence: 'A direct
19 uninvited solicitation of a specific potential
20 client is prohibited.'"

21 The motion is to submit this to the membership
22 for a mail ballot, that's the action we are taking today. You
23 are not taking sides on the question, as I understand it, and
24 as our legal counsel has advised me. If it's your desire we'll
25 so specify that in the communication to the membership.

1 All in favor of the motions say aye.

2 (Response from floor)

3 CHAIRMAN SCOTT: Any opposed?

4 (Response from floor)

5 CHAIRMAN SCOTT: I think we better have a stand
6 up vote. You need a little exercise anyway.

7 All in favor of the motion stand up and start
8 counting off over here, this section, and then this section.

9 One hundred and six for.

10 All against the motion stand and we'll have the
11 same procedure.

12 FROM THE FLOOR: I would be number forty-one, I
13 see everybody stood up to vote behind the new voters line.

14 CHAIRMAN SCOTT: No, only present members of the
15 Council are supposed to vote.

16 103. Was there anybody that voted that is not a
17 member of the Council right now?

18 The motion carried 106 to 103.

19 FROM THE FLOOR: I'd like to move that this
20 Council take a position on the issue by voting yes or no on the
21 issue do we wish to have the sentence removed from paragraph
22 502 or not.

23 FROM THE FLOOR: Second.

24 CHAIRMAN SCOTT: Okay. The motion has been made
25 and seconded that the Council take a position itself now. Any

1 further discussion?

2 All in favor say aye.

3 (Response from floor)

4 CHAIRMAN SCOTT: Any opposed?

5 (Response from floor)

6 CHAIRMAN SCOTT: Motion carried that the Council
7 should take a position.

8 Now, to take a vote on the position.

9 FROM THE FLOOR: To clarify that, I move that the
10 Council take a position in favor of removing the sentence from
11 Rule 502.

12 CHAIRMAN SCOTT: The motion has been made, is
13 there a second?

14 FROM THE FLOOR: (Numerous seconds)

15 SECRETARY SCOTT: The motion has been made and
16 seconded that the Council is in favor of removing the last
17 sentence of Rule 502, ready for the question? We'll try it on a
18 sound vote and see. All in favor of the vote say aye.

19 (Response from floor)

20 CHAIRMAN SCOTT: Opposed?

21 (Response from floor)

22 CHAIRMAN SCOTT: I have to rule that the Council
23 is not in favor of the motion.

24 (Applause)

25 MR. ENGEL: Mr. Chairman, I would like to make a

1 motion that this go with the ballot to the members.

2 CHAIRMAN SCOTT: Do we need a motion on that? I
3 don't think so. Somebody in back.

4 JOHN R. MINNERT (Chicago, Illinois): I was
5 under the impression that we had one hundred thirty-nine members
6 of the Council. As I recall your announcement of the poll was
7 106 to 103.

8 CHAIRMAN SCOTT: One hundred six to one hundred
9 three. No, we have more than two hundred fifty some.

10 MR. MINNERT: Oh, two fifty.

11 (Laughter)

12 MR. ENGEL: It would be appropriate since the
13 council vote was so close, that we take a standing vote. I
14 think the vote against was overwhelming and I think it would be
15 proper for the membership to know what kind of a count was voted.

16 CHAIRMAN SCOTT: Well, you know, I don't follow
17 your logic there, I don't want to argue the point with you, I
18 don't think your logic is quite right. The Council could take a
19 motion in opposition to removing it and still take a position to
20 submit it to the membership for a vote. What's your pleasure to
21 a recount on the original motion?

22 Did I misunderstand you?

23 MR. ENGEL: I think in advising the membership
24 along with their ballot of the passage, which was 106 to 103,
25 that the Council did take a vote for or against the motion, and

1 that count was so and so.

2 CHAIRMAN SCOTT: Have a count on that vote. Is
3 that your pleasure? Is that all right?

4 MR. WEINSTEIN: I had a point similar to his, I
5 thought we ought to take a vote on whether or not we wanted to
6 remain neutral, because I think we're very confused. When I say
7 "We" I think the membership will be very confused when we voted
8 down a motion in favor of it, that doesn't mean we didn't want
9 to remain neutral. I for one would like to remain neutral on
10 it. I would rather have a vote on that issue.

11 Now, would it be appropriate to make such a
12 motion?

13 CHAIRMAN SCOTT: Explain what you mean by
14 remaining neutral.

15 MR. WEINSTEIN: That when we submit the mail
16 ballot pro and con that we don't take a position, that we wanted
17 to vote in favor of it or that we wanted to vote against it. We
18 have not taken a vote against remaining neutral.

19 CHAIRMAN SCOTT: I'm getting confused now.

20 MR. ENGEL: Chuck Kaiser made reference to the
21 fact that many members look at the fact that the Council has
22 approved just the mailing of the ballot as possibly an
23 endorsement. And now we just voted no on the motion itself, I
24 think I would like to know and I think our membership should be
25 so told exactly how overwhelmingly against the motion the

1 Council was.

2 CHAIRMAN SCOTT: All right, if that's your
3 pleasure, we'll have a standing count-off vote with regard to --

4 FROM THE FLOOR: Point of order on that.

5 CHAIRMAN SCOTT: All right, point of order.

6 FROM THE FLOOR: The original motion was voted on
7 by a voice vote and you had a right to call at that time for a
8 written ballot. I presume you will have a new motion made at
9 this time, then.

10 SECRETARY SCHNEEMAN: Dave, I checked Robert's
11 Rules, it is possible after the vote is taken by voice vote to
12 ask for a division of the assembly, which is essentially the
13 sense of the motion after the voice vote was made, it's in order

14 CHAIRMAN SCOTT: So it's ruled it is in order
15 for us to have a standing vote on the position of the Council,
16 are you in favor or not in favor of the removal of the last
17 sentence of Rule 502, that's what you are voting on now, am I
18 right? Somebody question this?

19 They wanted an expression of numerical vote for
20 or against, the position of Council on the removal of the last
21 sentence, that's my understanding of the motion, is that right?

22 FROM THE FLOOR: Mr. Chairman, I'm confused, and
23 I'd like a little opportunity to more firmly get a handle on
24 this. I'd like perhaps you and Wally and all of the other
25 responsible people to perhaps visit over lunch, and I'd like to

1 move we adjourn and reconsider it after lunch.

2 CHAIRMAN SCOTT: Lunch won't be ready until 1:30.

3 There is a motion before the house. Is there a
4 second?

5 FROM THE FLOOR: Point of order, Mr. Chairman.

6 CHAIRMAN SCOTT: All right.

7 FROM THE FLOOR: I don't believe it's a motion, I
8 believe you have a division of the house, which is a procedural
9 matter, is all it is, in effect asking for that voice vote to
10 be amended by a roll call. There was a motion over here to
11 adjourn for lunch, the division of the house takes precedence
12 and that motion is out of order.

13 CHAIRMAN SCOTT: All right, the chair acquiesces,
14 the motion for the division of the house takes precedence I'm
15 informed, it's a request, not a motion.

16 All rihgt. So we will now have a standing vote,
17 a count-off vote on the response of the Council as to whether or
18 not you're in favor of removal of the last sentence or not, that
19 is the issue, all those in favor of the removal, please stand
20 and we'll start counting off.

21 Sixty-nine for.

22 All not in favor of the removal of the last
23 sentence of 502, please stand and count off, starting here.

24 One hundred thirty against and sixty-nine for.

25 Are there any abstentions? That will accommodate

1 you, John.

2 All right, that gave you an indication, then, of
3 the sentiment.

4 Let's turn to Item 10. We're going to have
5 handed out just before we consider Item 10 -- it doesn't relate
6 to Item 10, however -- the additional information that we
7 received from the Maine Society in connection with their motion,
8 which will be considered probably the first order of business
9 after lunch, so that you can take that with you and read it
10 between now and then. I would hope that you would not take the
11 time to read it right now, as we consider the AICPA Policy for
12 Education Requirements for Entry Into the Accounting
13 Profession.

14 After the Board meeting immediately preceeding
15 the spring Council meeting last May, we received a report on
16 education and experience requirements for CPA's. We discussed
17 and approved the report and recommended its implementation.
18 I'll ask that Wayne Albers, Chairman of the Education Executive
19 Committee to come to the podium to explain the report and the
20 recommendations contained in that report so that you'll have a
21 brief overview of that.

22 Wayne, you'll find the information under Item 10.

23 WAYNE ALBERS (Chairman, Education Executive
24 Committee): Thank you, Stan. Members of the Council: As Stan
25 said earlier this morning in his introduction to the total

1 program, Council has had outstanding, in fact, a statement of
2 policy on accounting education since 1969, when the
3 recommendations of the Beamer committee were adopted. Actually,
4 there were statements of policy in effect since 1959 with
5 subsequent amendments, and then the Beamer Committee in effect
6 qualified everything that happened up to that point and became
7 the statement of policy.

8 Since 1969, in fact, back in 1973, Council
9 passed action which endorses a strong professional program for
10 accounting education and endorsed professional schools as
11 perhaps one of the best ways to accomplish strong professional
12 programs. Then again, in 1976, the Council resolved that AICPA
13 should encourage development of quality professional programs,
14 and participate in their accreditation. Also in 1976, the
15 Executive Committee thought it would be appropriate to appoint a
16 task force to find out where things stood at that moment,
17 particularly appendix B to the Beamer report, that which sets
18 forth a model program for accreditation. That was the first
19 charge of the task force. The second charge, which came later,
20 was to review those ten policy statements to see whether or not
21 changes were in order in any of those.

22 As you heard, the Board of Directors has
23 approved that report, and it's that report we are asking you to
24 consider and approve today.

25 I'd like to explain first, if I may, the ten

1 policy statements in that regard, and you will find them on page
2 three of the report itself.

3 I'd like to relate them to history, if I may.
4 The first statement, that the CPA certificate is evidence of
5 basic competence is exactly the same as stated in the Beamer
6 report and therefore as you have approved it in the past. The
7 same is true of the second statement, there is absolutely no
8 change in either of those.

9 Third statement, there is one change, it read
10 previously, at least five years of college study are needed to
11 obtain the common body of knowledge. We propose that the five
12 years be changed into one hundred and fifty semester hours,
13 primarily because we feel that better describes the essence of
14 what we are after, that is, the content of the program rather
15 than the period of time it should take. The fourth item, the
16 fourth statement is exactly the same to the first, the scope and
17 content of the program should approximate what is described in
18 effect Appendix 1 of this report. The words "Should lead to the
19 awarding of a graduate degree" are new as a statement of policy,
20 and I would refer to pages six and seven of the explanation for
21 some of these changes, and you'll find there are three bits of
22 evidence from action of your Council or the AICPA Board of
23 Standards that suggest that we now think that a graduate degree
24 is an appropriate termination or conclusion, so to speak, of
25 this program.

1 The Board specifically said this for students
2 who complete the professional accountancy program a post
3 baccalaureate degree in professional accountancy should be
4 granted.

5 In Item No. 5, the Beamer Committee said that by
6 1975 the States should adopt one hundred fifty semester hour
7 education requirement. We're simply suggesting, since that date
8 has passed and it is not yet accomplished, that it should be
9 done at the earliest practical date.

10 The report of the task force ended at the end of
11 the first sentence, the Board of Trustees considered this
12 report, added the words as follows, which intended to describe
13 the conditions as they exist, and to suggest that it may take
14 considerably more time in some States than in others in order
15 to get the adoption accomplished.

16 Items No. 6 and 7, again, are identical as they
17 are outstanding now as approved by this Council. Item No. 8
18 reflects in effect the resolution adopted by this Council in
19 October of 1976, is that resolution, so there is no change in
20 effect in that, and Items 9 and 10 are again identical with the
21 Beamer report and therefore with the policy as stated by this
22 Council previously.

23 The second thing I would like to do is explain
24 the major changes that have occurred or that we're recommending
25 in what was Appendix B in the Beamer report, and you'll recall

1 that as the model program for accounting education, that is now
2 attached as Appendix 1 to this report, and I'd like first of
3 all to be sure that you understand one thing, and I would refer
4 to page four in that portion of the report -- let me read these
5 words -- "the Beamer committee believes, and the task force
6 agrees, that the interests of the profession can best be served
7 in an illustrative program, and such a programs constitutes the
8 bulk of this report and should be used for what it is, one
9 possible means of implementing a horizons to our profession."

10 Later on in the paragraph it states that this
11 program is intended to be descriptive rather than prescriptive.
12 I want to make sure you understand, again, this Appendix is
13 merely a sample program and it's clearly identified as such
14 throughout this report, and it's not intended in anyway to be
15 the program that is to be adopted by State legislation or
16 necessarily by any specific school. We still believe that the
17 educators should have a very large say in the specifications of
18 the programs that prepares students or persons for entering into
19 the profession.

20 Now, when I go to page two of the cover letter,
21 I just want to make sure, again, point out one or two items in
22 relationship to this Appendix I.

23 In view of the AICPA endorsement of the five-
24 year program, which we now refer to as the one hundred fifty
25 semester hour program, the task force has deleted discussion of

1 the four year program from this appendix, except to indicate
2 that the sample program may serve as a guide to individuals
3 concerned with improving the quality of four year programs.
4 It's our feeling that since it is such a strong position of the
5 Institute that we obtain our education in a one hundred fifty
6 hour program, that the sample program ought to be in the form
7 of a one hundred fifty hour program, and not have an alternative
8 four year program.

9 The second change I want to call to your
10 attention, the original form was in two parts, general education
11 and business education. The program is now composed of three
12 parts, general education, general business education, and
13 accounting education, and the purpose of this was not in any
14 way to suggest that business and accounting are unrelated, but
15 rather that accounting is not really a subset of business and
16 should have its own identity.

17 I'd like to make that point very clear.

18 Going on, in the general education area I want to
19 be sure you understand we have in no way changed the total
20 coverage of that, it's still a sixty hour recommendation. We
21 have, in effect, emphasized the need for skill in oral
22 communication, put more emphasis on that, and suggested that
23 specifically special consideration be given to devoting some
24 hours to ethics and logic.

25 In the general business section, we have done

1 several things, partly because some of the subjects, the
2 substance of the general business education is also covered
3 under general education. I'm referring there, for example, to
4 behavioral sciences, mathematics. The task force thought we
5 ought to reduce the amount of emphasis on those subjects in
6 general business education, so we have reduced, for example,
7 behavioral sciences from nine to somewhere between three and
8 six hours, and quantitative applications of business from nine
9 to six hours.

10 We also reduced from six to three hours the
11 legal and social environment of business, keeping in mind, or
12 bearing in mind that there are also six hours of business law
13 available under this section of the curriculum. We deleted the
14 course in production, primarily because the educators themselves
15 have a great deal of debate about production and how it should
16 be taught.

17 We deleted a course in business policy for much
18 the same reason, but we emphasized the need to be sure that
19 these two subjects are covered within the curriculum, but not
20 necessarily as separate courses.

21 Going on to the accounting education section, we
22 transferred a large part of those hours, nine of them, nine of
23 the hours taken from general business to the accounting area,
24 and we added, in effect, six to the financial accounting area
25 and three to taxes, so that in effect we now suggest fifteen

1 hours of financial accounting education and six hours in each
2 of four other areas, managerial, taxes, auditing and
3 assessments.

4 The balance of the hours in general we
5 transferred to the general business section so here again you
6 could take them in general business if you wish.

7 We also provided, in the accounting section, a
8 suggestion of a way of specialization on a relative basis, the
9 maximum number of hours we recommend for a specialization in
10 any of these areas is fifteen. You already have that in
11 financial and so by taking three from any other accounting area
12 and six from the elective you can add nine additional hours in
13 any one area and achieve the fifteen hours which we would
14 consider to be a limited amount of specialization.

15 Those are the changes I would like to call to
16 your attention.

17 I'd like to just mention that it seems to us that
18 there are two ways by which we might achieve a strong
19 professional program. The Council has, in effect, voted in
20 favor of it in the past, one is by offering guidelines such as
21 those in Appendix 1, so that those who are not in accounting
22 education have something to steer from or by, and secondly is
23 to participate in accreditation of accounting programs and the
24 Council has clearly said that it wants the Institute to do that.

25 Now, you probably are aware of the fact that we

1 have been cooperating with the American Accounting Association
2 and the American Assembly of Deans of Schools of Business in an
3 effort to get accounting accreditation underway.

4 Fairly recently, the Assembly, the Deans'
5 organization chose to act in such a fashion as to more or less
6 take over control of the accounting accreditation process. To
7 the extent that they are willing to cooperate with the ac-
8 countants, I think this may be a very good way to end up for us,
9 to end up with accreditation of accounting programs. To this
10 moment we don't know how much cooperation we're going to find.
11 Originally, as a group, they were adamantly opposed to
12 accounting accreditation, so it seems to me until we learn how
13 much cooperation we're going to have, we need this strong
14 statement as to what the Institute believes is a good accounting
15 education if we're going to have strong programs in effect.

16 I would urge you to approve both sections of the
17 motion before you.

18 CHAIRMAN SCOTT: Any questions of Wayne before
19 he leaves the podium? Art?

20 MR. DIXON: Wayne, one question, in the policy
21 statement, paragraph three on page three, the last sentence
22 reads "for those who meet this standard no qualifying experience
23 should be required." Is that a carry over from the Beamer report?

24 MR. ALBERS: That's an identical carry over from
25 the Beamer report.

1 MR. DIXON: And may I -- I've asked my question
2 and gotten my response. May I comment on it now, or wait until
3 later?

4 CHAIRMAN SCOTT: I think you are going to discuss
5 the motion, we'll wait for the motion.

6 Any other questions for Wayne?

7 CHARLES CHAZEN (Los Angeles, California): I
8 wonder whether this draft, or this completed product has been
9 exposed to educators, State societies, foundations, Boards of
10 accountancy for their comments up to this point?

11 MR. ALBERS: Specifically it hasn't been exposed,
12 there were a number on the task force and a number, possibly
13 six or seven, on the education executive committee, it was their
14 consensus that we were making relatively minor modifications in
15 a report that has been extant for some time, so we went directly
16 to the Board of Directors with the report.

17 ROBERT D. MILLER (West Hartford, Connecticut):
18 In paragraph eight of the proposed policy only quality
19 professional programs are referred to, and the '73 Board of
20 Directors resolution, of course, endorsed the concept of
21 professional schools, schools of professional accounting. Is
22 this a conscious drawback from schools of professional
23 accounting, the omission of the words?

24 MR. ALBERS: If I can respond in terms of my
25 understanding about what the task force and the education

1 executive committee felt, it would clearly not be a conscious
2 drawback from the support of the schools of professional
3 accounting.

4 MR. MILLER: So if an amendment were proposed to
5 add words relating to schools of professional accounting, it
6 would not be something the committee had already opposed?

7 MR. ALBERS: I believe that would be correct.

8 CHARLES G. STEELE (New York, New York): Wayne,
9 in the material that I have, and in your comments, I did not
10 get a clear indication of the extent to which Appendix 1 is
11 consistent with the report of the Board on standards. I didn't
12 hear you comment on it at all, and in the material that we
13 received in advance, as I understand it, there was an
14 indication that the report of the Board on standards was one of
15 the things considered. As I recall, isn't their curriculum
16 spelled out in that report, and if so, is there any
17 inconsistency between Appendix 1 and the curriculum spelled out
18 there?

19 MR. ALBERS: Charlie, the task force made a very
20 conscientious effort to make its report, Appendix 1, as
21 consistent as possible with the Board on standards report.
22 There may be minor differences, primarily of wording rather than
23 substance, I believe.

24 MR. STEELE: Thank you.

25 CHAIRMAN SCOTT: Okay, Jim?

1 JAMEI MACNEILL (Staff): Just as a matter of
2 fact, the Board on Standards report -- on the bottom of page 3
3 is a footnote that refers to the comment in that paragraph above
4 that talks about the body of knowledge which is addressed by the
5 Board on Standards, and says, at the present time this body of
6 knowledge is contained in the academic preparation paper, which
7 I believe it says -- excuse me, I've got my glasses on to see
8 the crowd instead of the notes -- it says at the present time
9 the body of knowledge as described in Horizons for a Profession
10 and in the report on the Committee of Education and Experience
11 Requirements for CPAs -- which is the real name for the Beamer
12 report, -- Academic Preparation for Professional Accounting
13 Careers, this reference is in reference to a paragraph that
14 talks about knowledge and methodology that says to enable the
15 student to require the essential body of knowledge it seems to
16 me by incorporation of those words in Appendix D, at least at
17 that point was embodied in the text.

18 CHAIRMAN SCOTT: Any further questions?

19 Thank you very much, Wayne.

20 You have the report of the committee. May I
21 have a motion on the two-part resolution proposed in the
22 material under Item 10, the resolution that reads as follows,
23 I'll read it:

24 "RESOLVED: That the report of the Task
25 Force on the Report of the Committee on

1 Education and Experience Requirements for
2 CPAs, AICPA Policy on Education Requirements
3 for Entry into the Accounting Profession, is
4 hereby approved by the Council as
5 representing a statement of current AICPA
6 policy on accounting education; and that
7 A Council also authorizes that Appendix I
8 of this report, 'Academic Preparation for
9 Professional Accounting Careers' be published
10 as a separate document so that it may serve
11 as a guide to those interested in developing
12 professional accounting programs."

13 Do I hear a motion to that effect?

14 FROM THE FLOOR: So move.

15 CHAIRMAN SCOTT: Is there a second?

16 FROM THE FLOOR: (Numerous seconds)

17 CHAIRMAN SCOTT: Any further discussion of the
18 motion?

19 Art.

20 MR. DIXON: Getting back to th point I mentioned
21 before, on page three the heading of that page is "Statements of
22 Policy on Educational Requirements for Entry into the Accounting
23 Profession."

24 The last sentence of paragraph three thereof is
25 "For those who meet the standard, no qualifying experience

1 should be required."

2 However one might feel with respect to that
3 sentence on the substance -- and it is highly controversial --
4 I believe that it does not relate to this statement, because
5 this statement says it relates only to educational requirements,
6 whereas we might feel in the broadest possible sense is a part
7 of a person's accounting education. I believe the thrust of
8 this statement relates to formal education, therefore I believe
9 that sentence should be removed.

10 Now, in another context, my statement is not
11 merely procedural, but I adopt the procedural approach to arrive
12 at a substantive conclusion. The question of the experience
13 required is highly controversial, there are those who feel
14 strongly it is not needed if you have a graduate degree, and
15 those who feel equally strongly it is needed, that matter is
16 being debated in New York, for example, right now.

17 I strongly support the statement of policy, as a
18 matter of fact, in New York the State Board for Public
19 Accountancy has recommended to the Board of Regents that it
20 recommended to the State legislature, or that it, the Board of
21 Regents, adopt this policy. Whether it will do so or not, I
22 don't know. It's a highly political matter, and therefore the
23 adoption of this statement will, I believe, support those of us
24 in the States who are trying to get this incorporated into our
25 State requirements. I would not like to see that bog down in

1 the experience controversy. I'm not sure what procedure would
2 be particularly appropriate here, but I would like to make a
3 motion, or an amendment to a motion, if that's the way to do it,
4 which excludes that last sentence from the statement of policy
5 on education requirements.

6 FROM THE FLOOR: Second that.

7 CHAIRMAN SCOTT: The motion has been made and
8 seconded. Wayne, would you like to respond to that?

9 MR. ALBERS: I think the committee's attitude
10 would be there is another way you might accomplish the
11 clarification, that would be to change the title to read
12 "Statements of policy on education and experience requirements
13 for entry into the accounting profession." It is primarily a
14 statement of education requirements, but we did, in fact,
15 continue that statement through the portion related to
16 experience. I think I would stongly prefer to leave it as it is
17 in Item three itself.

18 CHAIRMAN SCOTT: Would that accomplish what you
19 are after, Art?

20 There is an amendment to the motion on the floor
21 and a second to that amendment with regard to removing --

22 MR. DIXON: I'd like that amendment to stand. I
23 would not withdraw it.

24 CHAIRMAN SCOTT: Okay. Any further discussion?
25 Charles?

1 MR. CHAZEN: I recommend that the Council not
2 approve the release of this statement at the present time. The
3 copy that I have is dated October 9th, 1978, it's been in my
4 hands for less than ten days, and we have had no chance to get
5 comments, among others, from State Boards and State Societies
6 and so forth. It seems to me, while there's absolutely no
7 question of the job done by the people who put this together
8 that for purposes of implementation and for purposes of
9 practicality it has to go the full course before we can decide,
10 and if Council decides not to approve it at the present time, I
11 would then move we consider this at our May meeting.

12 ROBERT A. MELLIN (San Francisco, California): I
13 would like to speak in support of Charles' motion. The
14 California Society has done a great deal recently in working
15 with the educators in California, and we have learned that it
16 works out better if you don't tell educators what to do. My
17 concern is with Appendix I that there has been very few people
18 in that game in California that have had input into this, and I
19 would like, if possible, to have the two parts taken up as two
20 separate resolutions, rather than as a single resolution, since
21 it is in two parts.

22 CHAIRMAN SCOTT: Did you make that in the form of
23 a motion?

24 MR. MELLIN: I did.

25 CHAIRMAN SCOTT: We've got an amendment on the

1 floor to amend the original motion. I think we need to vote on
2 that first and see what that is and get that clarified before
3 we get a stack that I can't keep track of and maybe the rest of
4 you can't either.

5 Are you ready to vote on the amendment to the
6 main motion?

7 All in favor of the deletion of the sentence
8 read by Art, please say aye.

9 (Response from floor)

10 CHAIRMAN SCOTT: Any opposed?

11 (Response from floor)

12 CHAIRMAN SCOTT: All right, the motion to amend
13 carries.

14 Now then, I can entertain a motion. Chuck?

15 MR. CHAZEN: Was that not a motion to table?

16 CHAIRMAN SCOTT: Do you make a motion to table?
17 Is there a second?

18 FROM THE FLOOR: (Several seconds)

19 CHAIRMAN SCOTT: A motion to table is not
20 debatable, as I understand it. All in favor of tabling the
21 motion as amended, please say aye.

22 (Response from floor)

23 CHAIRMAN SCOTT: Any opposed?

24 (Response from floor)

25 CHAIRMAN SCOTT: I'll rule that the motion

1 carried. The motion has been tabled.

2 That brings us to the point in time where we'll
3 adjourn for lunch. It's in Room No. 4, of course, in Room 5
4 there are cocktails for a brief period of time and lunch will
5 be served at 1:30. Be back in this room at 2:30 this afternoon
6 for the completion of our meeting agenda.

7 [LUNCHEON RECESS]

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AFTERNOON SESSION

CHAIRMAN SCOTT: I think everybody is just about settled . Let's give some consideration now to the proposal of the Maine Society.

By way of some background introduction to this item, in July of this year I received a letter from the Maine Society of Public Accountants which has been previously forwarded to you and is in your kits as Item 11. In addition, there's some more material from the society that was passed out this morning.

The Board discussed the letter at its July meeting, and at that time, I informed the Board of my intention to grant the request and to put the letter before the Council at this meeting. I should emphasize that in doing so we, the Board, are not supporting or endorsing the proposed resolution of the Maine Society. We do not have a motion on the floor at this point, so I will just make inquiry, does somebody want to make a motion?

ROBERT E. WILSON (Waterville, Maine): I move the adoption of the resolution.

CHAIRMAN SCOTT: All right. You have the resolution in the letter and the motion has been made. Is there a second?

I don't hear a second.

FROM THE FLOOR: Second.

1 CHAIRMAN SCOTT: The motion has been made and
2 seconded. Is there any discussion of this motion?

3 MR. WILSON: May I make a presentation? I'm
4 speaking for the Maine Society and its Board of Governors, and
5 it seems to me that the body of the AICPA members of the
6 Society practically unanimous agreement of the Board
7 represents a fair sample of the position of the individual
8 members of the Institute, and I hope the Council will take this
9 into consideration.

10 You have all been furnished with a copy of a
11 letter which I wrote requesting the item be placed on the
12 agenda, and you received a copy of the material which was sent
13 to the membership with the ballot.

14 I'm sorry this material was not furnished sooner,
15 but I had not made plans on just how to present this until just
16 recently.

17 As you can see, we tried to present both sides
18 of the issue, but it does seem that a comparison of the
19 different provisions of the documents establishing the two
20 sections support the contention that the Private Companies
21 Practice Section is a second class section.

22 I have not seen any indication that any member of
23 the congress was proposing the complete regulation of the
24 profession. It appears a few members of Congress wish to be
25 assured that publicly held companies in which they may invest

1 are properly audited. It appears that the Institute over
2 reacted to the threat of regulation.

3 I thought you might be interested that out of the
4 twenty-four votes against our resolution, six were from members
5 associated with Big Eight firms, by comparison, out of the forty
6 votes favorable to the resolution, only one was from such a
7 member.

8 I should be happy to answer any questions within
9 the scope of my expertise on the subject, but I'm hopeful there
10 may be others here more knowledgeable and more eloquent than I
11 who will speak in favor of this resolution.

12 Thank you.

13 CHAIRMAN SCOTT: Is there any other discussion?

14 GLENN INGRAM (Illinois): I'm not a member of
15 this Council, but I'm here as a committee chairman, and I thank
16 you for the privilege of the floor.

17 Let me say that the Private Companies Practice
18 Section which was the subject of this motion just made, found
19 out about this prior to its September meeting and did consider
20 the matter at length and voted unanimously to urge you to reject
21 the motion.

22 I'm just human enough personally -- not speaking
23 for the Private Companies Practice Section now, but for myself
24 and some members on the section who feel the same way -- I don't
25 feel like a second class citizen, and my clients don't think of

1 me as a second class citizen, and I can sure as hell promise you
2 I don't think of them as second class citizens.

3 I ask you to realize when we talk about second
4 class citizens this has some emotion to it, it's hard to be
5 objective, but we on the executive committee of the Private
6 Companies Practice Section think we have accomplished a great
7 deal this year and we urge you to join us on Monday morning at
8 10:30 to 10:45 when we have a little debate with the SEC
9 section, with Walter Hansen and Arch MacKay.

10 Thank you.

11 CHAIRMAN SCOTT: Any other discussion of the
12 motion?

13 JOHN M. CUMMINGS (Kennebunk, Maine): I'm
14 presenting a minority opinion from the Minority State. I think
15 Maine is perhaps well known for their independent thinking, and
16 this surely is an exhibition of that, but perhaps our thinking
17 is not so far different in terms of our constituents, that is,
18 a lot of your members from your various States.

19 What might appear to be a family squabble, I
20 think is a fairly common discussion among many of the local
21 practitioner CPAs as to whether the Council overstepped itself
22 in making the decisions last fall.

23 I think perhaps it is the concerns of our
24 constituents, what troubles them most, is that if it ain't
25 broke, don't fix it, and they don't perhaps recognize that there

1 is, indeed, a problem; and I think that is perhaps, indeed, the
2 problem, that many people don't recognize that there is an
3 imminent problem.

4 I think becoming informed on the issue
5 concerning the section of the institute has taken all of us in
6 the Council a great deal of time and effort, and I think it's
7 probably information which the members at large, while they
8 have been given printed materials, may not have been given the
9 benefit of.

10 Perhaps we, in the Council, operating from the
11 benefit of this or the advantage of more information, I feel,
12 have made a wise decision last fall. I would recommend that we
13 defeat this article and that we support the two sections of the
14 Institute, sections of the divisions of firms within the
15 Institute.

16 CHAIRMAN SCOTT: Any additional discussion?

17 HERBERT M. HABER (New York, New York): I have
18 been privileged to be a member of the Private Companies Practice
19 Section Executive Committee. I'm going to speak against the
20 motion.

21 What you are looking at in the Maine proposal
22 relates to items which today I consider to be somewhat out of
23 history. I visualize a lot of things that can be done with the
24 two sections, particularly the Private Companies Practice
25 Section which represents, perhaps, a majority of the membership

1 at the Institute.

2 There are many areas, particularly in the
3 technical field, auditing, accounting principles, which are the
4 input of a single unit, the single unit as I visualize it is
5 the Private Companies Practice Section. We have a problem today
6 of the so-called spillover effect, both in the tax area and in
7 the auditing area where the pressures that are placed in the
8 SEC practice are beginning to affect those of us who are
9 primarily in the Private Company Practice.

10 I believe it is very important that the Private
11 Companies Practice Section remain intact, that we move forward
12 and do a lot more intensive work than it has done in the past,
13 and I think that much can be accomplished by insuring that the
14 two levels, or two sections, remain.

15 Thank you.

16 CHAIRMAN SCOTT: More discussion?

17 FROM THE FLOOR: Question!

18 CHAIRMAN SCOTT: The question has been called
19 closing debate on the issue. All in favor of closing debate say
20 aye.

21 (Response from the floor)

22 CHAIRMAN SCOTT: Any opposed?

23 (No response)

24 CHAIRMAN SCOTT: Turn now to the main motion,
25 which is that the Council should dissolve the Private Companies

1 Practice Section and change the name of the SEC Practice Section
2 to Division of CPA firms. All in favor of the motion as stated
3 say aye.

4 (Response from floor)

5 CHAIRMAN SCOTT: Any opposed?

6 (Response from floor)

7 CHAIRMAN SCOTT: The motion failed.

8 The chair will recognize Charlie Steele.

9 MR. STEELE: I believe that when the Council
10 voted to table the motion of the Educational Executive Committee
11 just before lunch that they did so without understanding the
12 importance of their action. The AACSB has taken control of the
13 accreditation of accounting education out of our hands. We
14 sought, through our organization in cooperation with the AAA to
15 establish accounting, or accreditation standards which would be
16 brought about in conjunction with the AACSB. They then chose to
17 take that control out of our hands, but have indicated a
18 willingness to cooperate by permitting individuals from the AAA
19 and from the AACSB to serve on an advisory committee.

20 The present sceudule of the AACSB is to implement
21 the accreditation program, make their decisions concerning the
22 accreditation program by their governing Board in April. If we
23 delay consideration of this issue until our May meeting, the
24 decisions then with regard to the ongoing accreditation of
25 accounting education will be made without the input of this

1 group.

2 As we stand now, the Beamer report, which is
3 several years old, and which includes endorsements of a four
4 year program as an alternate, was approved by Council, but is
5 out of date. The report of the Board of Standards for
6 accounting education has been endorsed by the Board, but not by
7 this group.

8 I think it is important for our profession that
9 the AACSB have the recommendations of the Education Executive
10 Committee that were presented before this group before lunch,
11 that they have those recommendations approved by us in their
12 hands before they make the decisions that will decide what the
13 elements of curriculum will be for accounting accreditation,
14 which will stand for a long time.

15 Accordingly, I make a motion, or bring back from
16 the table, whichever is the parliamentary procedure, that we
17 consider the question of the motion that was presented by Wayne
18 Albers on behalf of the Accounting Education Executive Committee.

19 CHAIRMAN SCOTT: You have heard the motion. Is
20 there a second?

21 FROM THE FLOOR: (Numerous seconds)

22 CHAIRMAN SCOTT: Any further discussion of the
23 motion to lift the table?

24 Charles?

25 MR. CHAZEN: While I understand the importance of

1 presenting a report for the purposes of deciding the course of
2 future education, it seems to me, I fail to see why we cannot
3 present this body with a paper endorsed by the Board of
4 Directors of the American Institute, which is not a lowly body,
5 without committing ourselves completely, having had not
6 sufficient time to study the subject as it should be studied
7 both by ourselves and our constituents, therefore I would object
8 to approving this paper at this time for the purpose indicated.

9 CHAIRMAN SCOTT: My parliamentary reminds me I
10 was wrong in allowing discussion on a motion to lift the table.
11 In fairness, I'll now allow a positive statement before I call
12 for the vote. Charles Steele's statement was positive, I guess.
13 So I will call for the vote in favor of lifting the table.

14 (Response from floor)

15 CHAIRMAN SCOTT: Opposed?

16 (Response from floor)

17 CHAIRMAN SCOTT: Motion carried, the motion is
18 now back on the floor for consideration by the Council.

19 The motion that is before you is to move to adopt
20 the following resolution:

21 "RESOLVED: That the report of the Task
22 Force on the Report of the Committee on
23 Education and Experience Requirements for
24 CPAs, AICPA Policy on Education Requirements
25 for Entry into the Accounting Profession, is

1 herby approved by the Council as
2 representing a statement of current AICPA
3 policy on accounting education; and that
4 "Council also authorizes that Appendix I
5 of this report, 'Academic Preparation for
6 Professional Accounting Careers,' be published
7 as a separate document so that it may serve
8 as a guide to those interested in developing
9 professional accounting programs."

10 That's the original motion. There was an
11 amendment offered on the floor to strike out a sentence, which
12 would make this motion then read that it is hereby approved as
13 amended by you, if that amendment carries.

14 EDWARD L. WRECKER (Phoenix, Arizona): Could we
15 have a roll call vote on the last motion?

16 CHAIRMAN SCOTT: We'll stand and count off again
17 like we did this morning.

18 All in favor of lifting the table, please stand,
19 and then we'll start counting off over here.

20 One twenty-six for.

21 All opposed to the motion to lift the table?
22 Start counting over here.

23 Forty-one. The motion carried, 126 to 41.

24 All right, now we have the main motion before us,
25 I think at this point it's appropriate to vote on the amendment.

1 FROM THE FLOOR: Point of order, Mr. Chairman.
2 We did vote on on the amendment and it carried.

3 CHAIRMAN SCOTT: Did it pass? Yes. Shows how
4 good a memory I have.

5 All right, We're voting now on discussing the
6 motion as amended by the deletion of the sentence.

7 Okay.

8 MR. MILLER: I'd like to propose an additional
9 amendment, Item 8 in the statement of policy, page four, I move
10 that we add the words, following programs of accounting "(Or
11 schools of professional accounting)."

12 FROM THE FLOOR: Repeat that please?

13 MR. MILLER: In Item 8 following the words
14 "quality professional program of accounting," insert in
15 parenthesis "or schools of professional accounting."

16 And again, coming back to something I mentioned
17 earlier, the 1973 resolution of the Board of Directors
18 encouraging the establishment of schools of professional
19 accounting is part of our present policy. The implication in
20 dropping it from the present resolution could be taken by those
21 who oppose the school as a case of rejection. Therefore I would
22 like to see it amended in this manner.

23 CHAIRMAN SCOTT: You heard the amending mottion,
24 Is there a second?

25 FROM THE FLOOR: (Numerous seconds)

1 CHAIRMAN SCOTT: Any further discussion?

2 All in favor of the amendment say aye.

3 (Response from floor)

4 Opposed?

5 (No response)

6 CHAIRMAN SCOTT: So ordered.

7 Any further discussion of the main motion now as
8 amended?

9 SAMUEL A. DERIEUX (Richmond, Virginia): I really
10 have a question, and I'd like for someone from the education
11 committee to answer it for me if they can: As I understand it,
12 our existing policy would be actually replaced by this new
13 statement of policy. If the existing policy has in it a
14 statement that there would be no experience requirement, then
15 aren't we eliminating our policy of having no experience
16 requirement? I think if we are going to take that step, or if
17 that would be the effect of this, I think the members of the
18 council should be aware that would be its effect.

19 CHAIRMAN SCOTT: Wayne, are you here?

20 Can you address that question?

21 MR. ALBERS: Mr. Chairman, I think I agree with
22 what Sam has said. I'm not sure of the process, but I believe
23 if Council passes this resolution, that that would have the
24 effect of eliminating the prior statement of policy, even though
25 it doesn't state that specifically, but I think I'd rely on your

1 judgment or other judgments in that respect.

2 CHAIRMAN SCOTT: This was designed to take the
3 place of the Beamer report as a matter of statement of policy
4 of the Institute.

5 MR. ALBERS: That's correct.

6 CHAIRMAN SCOTT: And doing away with the
7 experience requirements is contained in the Beamer report, do I
8 understand that?

9 MR. ALBERS: No experience requirement is in the
10 Beamer report, it has been eliminated from this, if this
11 supercedes the Beamer report we will have nothing outstanding,
12 no policy statement on the experience requirement, I believe.
13 I don't know of any place it is stated as a policy.

14 CHAIRMAN SCOTT: Then, Sam, really what we are
15 speaking to is the deletion of the third sentence in paragraph
16 three page three, I think.

17 MR. DIXON: Mr. Chairman, in making my motion I
18 did not intend to affect any other Institute policy in any way,
19 shape, form or manner. I viewed this report, which I support
20 wholeheartedly, as amended, as coming after the Task Force
21 devoted its time and efforts, and I'm sure they were
22 considerable, to the requirements for entry into the accounting
23 profession. As a matter of fact, I'm convinced the heading of
24 their statement of policy reflected their very strenuous efforts
25 in arriving at it. It may have been a Freudian slip, I'm not

1 sure, but it's reflected what they did in the time they spent.

2 And there are changes, other changes in this
3 document from the Beamer report. We are now, therefore, being
4 asked to vote on a new policy so to speak, and I would suggest
5 that I think that new vote should be limited to a statement of
6 policy on education requirements, and I would respectfully
7 suggest that it certainly was not the intention of the maker of
8 the motion to change whatever the policy of the Institute is
9 with respect to the experience requirement. I respectfully
10 suggest that that should be considered on its own merits, and
11 that this policy statement should be limited to the title which
12 it presently carries, and I also suggest that if the Task Force
13 wishes to change the heading of that statement of policy, I think
14 that's a substantive change which should be put to a vote.

15 MR. KESSLER: This time the mike works, and this
16 time, Arthur, I am pretty much in agreement with you. As I said
17 to NASBA earlier this week and many times before, there should
18 be a distinction between the CPA examination being something
19 that someone can study for, and an experience requirement
20 related to a license to practice. There ought to be a
21 distinction. I cannot see any reason for having an experience
22 requirement to sit for the CPA examination. Perfectly all right
23 to have an experience requirement to obtain a license. So maybe
24 Arthur and everybody else would be happy if we would make this
25 item be clarified in such a way that no qualifying experience

1 would be required to sit for the CPA examination. That leaves
2 it open for each State to do as it wishes with regard to
3 licensing, and I think we are talking about education
4 requirements to take an exam, any examination you can study for,
5 you don't necessarily have to have experience. I don't say any
6 more, but I urge the adoption of this motion, because we have a
7 policy now, and it's ridiculous to let it stand when we have all
8 of the effort that's gone into this.

9 CHAIRMAN SCOTT: Lou, did you make that as a
10 motion?

11 MR. KESSLER: For purposes of discussion I would
12 suggest that we amend this paragraph three to say "for those who
13 meet this standard no qualifying experience should be required
14 to sit for the CPA examination."

15 CHAIRMAN SCOTT: You heard the motion, is there
16 a second?

17 FROM THE FLOOR: (Numerous seconds)

18 CHAIRMAN SCOTT: The motion has been made and
19 seconded. What that does, in effect, is take away the First
20 Amendment and add to the sentence that's been reinstated "for
21 those who sit for the CPA exam."

22 Any further discussion of this amendment?

23 Bert?

24 MR. MITCHELL: I actually agree with what Louis
25 Kessler just said, but we must be mindful of the confusion that

1 now exists as between holding the CPA certificate and having a
2 license to practice. In many States, and in most States, it's
3 one and the same thing, there is no differentiation between
4 having passed the CPA examination and having a license to
5 practice, so if we make this amendment right now, we should be
6 very, very clear in our minds that we are not saying that once
7 someone fullfills the educational requirements and passes the
8 CPA exam that he has a license automatically to practice, so
9 it's just a precautionary situation, we ought to think about
10 this before we amend this particular section.

11 MR. KAISER: Doesn't Item 6 on page four cover
12 the same thing? I think the amendment is superflous.

13 MR. STEELE: I say not only is it superflous, but
14 I would point out if we make that amendment we would, by
15 substituting this report for the Beamer report in effect be
16 expressing the view of the previous position that education
17 could substitute for experience requirement would be overruled
18 by adopting this.

19 CHAIRMAN SCOTT: Any further discussion?

20 What we wil be voting on now is Lou Kessler's
21 amendment to the document on the last sentence on page three
22 that had previously been stricken by Art Dixon's amendment on
23 paragraph three, reinstating that sentence and adding the
24 phraseology to the end of the sentence "to sit for the CPA
25 exam."

1 All in favor of that motion say aye.

2 (Response from floor)

3 CHAIRMAN SCOTT: All opposed?

4 (Response from floor)

5 CHAIRMAN SCOTT: The ayes have it.

6 Are you ready for a vote on the main motion as
7 now amended?

8 All in favor -- Andy?

9 ANDREW P. MARINCOVICH (Long Beach, California):
10 A point of clarification. In my voting on this, if I vote aye,
11 that does not change the previous policy as to experience as
12 stated in the Beamer report, and I'm taking Art Dixon's
13 instructions on this, that he did not intend to change the
14 experience requirement policy.

15 CHAIRMAN SCOTT: Well, his amendment has now been
16 deleted, Andy.

17 MR. STEELE: How does it read now, then?

18 CHAIRMAN SCOTT: How does it read now?

19 The last sentence on paragraph three of page
20 three that was previously stricken has now been reinstated and
21 the words added to that sentence that no qualifying experience
22 should be required to sit for the CPA exam.

23 MR. DERIEUX: I think that still leaves us in the
24 position that if we pass this motion we have no policy on the
25 experience requirement for the obtaining of the CPA certificate

1 and for practicing. It seems to me we are still in that
2 position.

3 PRESIDENT OLSON: I want to make essentially the
4 same point that this essentially changes our present posture in
5 respect to the policy, the issue we are trying to deal with as
6 I understand it, is as to whether you're to not have an
7 experience either for taking the examination or practicing, and
8 Lou's amendemnt, which apparently you ruled was adopted, changes
9 our present policy, which is that you don't need experience
10 either to get the certificate or take the examination and
11 practice. This amounts -- puts us in a position where you
12 cannot practice, but you can sit for the CPA examination.

13 CHAIRMAN SCOTT: It does not really speak to the
14 practice.

15 PRESIDENT OLSON: It does not speak to the
16 practice, but that runs to the question of does this completely
17 supplant the Beamer report.

18 CHAIRMAN SCOTT: I think your interpretation is
19 exactly right.

20 MR. KESSLER: I don't want us to debate the pros
21 and cons of experience requirements, that will have the effect
22 of defeating this motion. Sometimes I wish I had not made an
23 amendment or suggested an amendment. I urge the adoption of
24 this motion with whatever tailoring we need to do in order to
25 get this thing passed. As far as education and experience, I

1 don't think we should be debating the merits of experience at
2 this particular time.

3 FROM THE FLOOR: Call the question.

4 CHAIRMAN SCOTT: All in favor of shutting off
5 debate on this matter and moving to the motion itself, say aye.

6 (Response from floor)

7 CHAIRMAN SCOTT: Any opposed?

8 (No response)

9 CHAIRMAN SCOTT: Now, for the main motion, which
10 is the adoption of the recommendation of the Education Executive
11 Committee as amended, all in favor of the motion say aye.

12 (Response from floor)

13 CHAIRMAN SCOTT: Any opposed?

14 (No response)

15 CHAIRMAN SCOTT: So ordered.

16 I think it would be appropriate for the record
17 to reflect that there was not any intention in the adoption of
18 this to change any of the policies of the Institute with regard
19 to the experience requirement or lack of experience requirements
20 for practicing public accounting.

21 Well, gentlemen, believe it or not, the work of
22 the 1977-1978 Council is nearly finished, and we have reached
23 the point in our agenda for the installation of the new Council
24 and the elections that will follow that.

25 I will ask Mick Chetkovich, chairman of the

1 nominations committee to join me at the other microphone and
2 report on behalf of his committee.

3 MICHAEL N. CHETKOVICH (New York, New York):
4 Good afternoon. Your committee on nominations, on whose behalf
5 I report, was elected last year by the Council in Cincinnati.
6 In addition to myself, members of the committee are

7 Robert D. Faw, Maryland;

8 Drew R. Fuller, Georgia;

9 Jordan L. Golding, Massachusetts;

10 Irving B. Kroll, California;

11 William C. Rescorla, Michigan;

12 William M. Schmidt, Montana.

13 Our committee held a two day meeting in New York
14 on March 9th and 10th of this year, and in accordance with the
15 by-laws, published a report of the decisions reached at that
16 meeting in The CPA Letter of April 10th, a copy of that report
17 as revised is in your folder.

18 Now, the adoption by the membership at the end of
19 March of a by-law providing for the election in 1978 of three
20 public members of the Board required that we meet again, and we
21 did so in June. The by-laws require that our nominations be
22 announced to the membership at least five months prior to this
23 fall meeting. Now, as you can imagine, it was not a simple task
24 to identify the candidates, the best candidates, to serve as
25 public members of the Board, particularly this first time around.

1 and further, we could not, of course, nominate a public member
2 without first determining that there is a willingness on the
3 part of that individual to serve. And so our selection process
4 took longer than it would if we were seeking candidates from
5 within the profession, and therefore offered less time for
6 communication and consideration by you than will be the case in
7 the future.

8 This timing crunch was unavoidable this first
9 time around because the whole process was triggered only by the
10 by-law amendment which took effect in late March. In the
11 future, of course, the committee will not have this problem.

12 We looked for outstanding individuals from a
13 number of various disciplines whose talents and backgrounds
14 would add new strengths and prestige to our Board. I am pleased
15 to report to you that we were able to get commitments to serve
16 if elected from our first choices in the fields of government,
17 education, and investments and financial analysis.

18 Now, because we could not comply with the time
19 provisions of the by-laws, we sought the advice of legal
20 counsel as to the best way to proceed in the circumstances. We
21 were told that because of the tension between the sections of
22 the by-laws effective March 31, '78 requiring the election of
23 three public members in 1978, and the sections requiring that
24 nominations be made at least six months prior to this meeting,
25 that we would have to fall back on general corporate law for the

1 right answer. We were advised to make our selections and
2 announce them as soon as possible, which we did.

3 The announcement had to await the submission of
4 a letter of resignation to the White House by one of our
5 nominees. In the view of legal counsel election of the three
6 public nominees in these circumstances would be valid. We are
7 also advised that if the Council decides not to act on the
8 three public members of the Board because the nominations were
9 not made a sufficient period prior to this meeting, the Board
10 could fill the vacancy at its next meeting. The Board desires
11 a full complement to deal with the issues before it, and
12 strongly recommends election by the Council of the nominees to
13 the Board at this meeting.

14 Another modification of our usual time schedule
15 was required by the merger of Ernst & Ernst and S. D. Leidesdorf,
16 which was announced in July of this year. We had nominated and
17 published to the membership our selection of Harry Mancher, our
18 treasurer, of S. D. Leidesdorf for a second year, and Ray J.
19 Groves of Ernst & Ernst for a three year term on the Board.
20 Because its considered inappropriate for two members of the same
21 firm to be members of the Board, Ray Groves declined the
22 nomination, and we selected and published to the members our
23 new nominee, Archibald MacKay of New York. Because the merger
24 was only announced in July, we again were not able to meet the
25 six month requirement, but moved as quickly as we could to offer

1 you a complete slate, and we are told by our legal counsel
2 election under these circumstances will be valid.

3 With those two explanations out of the way, I
4 would like to turn to our committee report. This is the blue
5 paper in your kits under Item 12.

6 The committee report includes a reminder that
7 independent nominations for officers, members of the Board of
8 Directors and Council members at large may be made by any
9 twenty members of the Council, and independent nominations for
10 Council may be made by any twenty Institute members from a
11 given State, if filed with the Secretary at least four months
12 prior to the annual meeting. The Secretary received no such
13 nominations.

14 The report also quotes the by-law provision that
15 no nominations from the floor will be recognized.

16 As you know, each of the fifty-four jurisdictions
17 has on Council one representative designated by the State
18 Society. The appointment of these State representatives does
19 not require action by the Council.

20 In addition to members of Council representing
21 individual States, the by-laws provide for twenty-one Council
22 members at large, selected on the basis of their National
23 contributions to the profession. Each year seven Institute
24 members are elected to serve three year terms.

25 Your Nominations Committee this year has chosen

1 the following to serve as Council members at large for three
2 year terms:

3 Sidney A. Champagne, Louisiana;

4 Joseph B. Dresselhaus, Nebraska;

5 Robert A. Harden, South Carolina;

6 Charles T. Horngren, California;

7 Glenn Ingram, Jr., Illinois;

8 Dale P. Jones, Oklahoma;

9 William C. Penick, District of Columbia.

10 Mr. Chairman, I nominate these person and move
11 their election on a unanimous ballot for the terms indicated.

12 CHAIRMAN SCOTT: Do I have a second?

13 FROM THE FLOOR: (Numerous seconds)

14 CHAIRMAN SCOTT: Any discussion?

15 All in favor of the motion say aye .

16 (Response from the floor)

17 Any opposed?

18 (No response)

19 The newly elected Council members at large are
20 officially in office.

21 MR. CHETKOVICH: In accordance with long
22 established procedure, and in compliance with the by-laws, each
23 State was asked to submit at least twice the number of names
24 required to fill Council vacancies arising in its representation
25 this year. The committee gave due consideration to the names

1 submitted and made its nominations for directly elected members
2 of Council. Notice of its nominations was published in April,
3 and in the absence of independent nominations, the nominees
4 selected by the committee were declared elected by the Secretary
5 in a letter sent to them.

6 I am pleased to announce the installation of
7 those council members at this time, but I will refrain from
8 reading their names since they are included in the report before
9 you.

10 CHAIRMAN SCOTT: I would like to remind you at
11 this time now that the old Council is now dissolved and only
12 members of the new 1978-'79 Council, including those members
13 who have just been elected and installed, may vote in the
14 following elections that are to take place.

15 MR. CHETKOVICH: Under the procedures prescribed
16 for the Joint Ethics Enforcement program, the Council must
17 elect twelve members of the National Review Board each year.
18 The following members have been nominated by the committee on
19 nominations to serve three year terms.

20 Willard G. Bowen, Colorado;
21 Winston Brooke, Alabama;
22 C. William Caron, California;
23 Lyndon C. Conlon, Florida;
24 William R. Gregory, Washington;
25 Glenn Ingram, Jr., Illinois;

1 Harry L. Laing, North Carolina;
2 Paul Lambert, Jr., District of Columbia;
3 Harry R. Mancher, New York;
4 Rowland D. Pattillo, Texas;
5 Gordon W. Tasker, Connecticut;
6 Evan R. Terry, Utah.

7 We also nominate Harry J. Baird of Rhode Island
8 to fill a vacancy caused by the death of Howard E. Hanson of
9 Massachusetts.

10 I nominate the members and vote their election on
11 a unanimous ballot.

12 CHAIRMAN SCOTT: Is there a second?

13 FROM THE FLOOR: (Numerous seconds)

14 CHAIRMAN SCOTT: All in favor say aye.

15 (Response from floor)

16 All opposed?

17 (No response)

18 So elected.

19 MR. CHETKOVICH: Four members of the Board of
20 Directors, the nominations committee has selected the following
21 for three year terms:

22 Archibald E. MacKay, New York;

23 Robert D. May, Florida;

24 Robert A. Mellin, California.

25 Mr. Chairman, I nominate these men and move their

1 election on a unanimous ballot.

2 CHAIRMAN SCOTT: Is there a second?

3 FROM THE FLOOR: (Numerous seconds)

4 CHAIRMAN SCOTT: All in favor say aye.

5 (Response from floor)

6 Any opposed?

7 (No response)

8 So moved.

9 MR. CHETKOVICH: Now, as to the three public
10 members of the Board, I have the pleasure of nominating the
11 following:

12 Barbara Hackman Franklin, for a term of two
13 years ending October of 1980, to become effective with her
14 separation from governmental service in February of 1979.

15 Thomas C. Pryor, for a term of one year;

16 and John C. Sawhill, for a term of three years.

17 You have each received biographical material on
18 these candidates, and I am sure you will agree they comprise a
19 strong slate.

20 Mr. Chairman, I nominate these candidates for
21 the terms indicated and move their election on unanimous
22 ballot.

23 CHAIRMAN SCOTT: Is there a second?

24 FROM THE FLOOR: (Numerous seconds)

25 CHAIRMAN SCOTT: All in favor say aye.

1 (Response from floor)

2 Any opposed?

3 (No response)

4 So ordered.

5 MR. CHETKOVICH: Mr. Chairman, hopeful that the
6 Council would act as it just as, we invited the three public
7 members to witness the Council meeting. Because of their busy
8 schedules, only one could make it, and he was available only
9 because he was willing to give up a part of his Florida vacation
10 to be with us today.

11 I would like to ask Tom Pryor to stand and be
12 recognized by the Council. Tom, where are you?

13 (Applause)

14 MR. CHETKOVICH: As many of you know, Tom has
15 made many contributions to the profession. We appreciate your
16 coming, Tom, and look forward to having you on our Board.

17 Mr. Chairman, speaking for the committee, I now
18 propose the following individuals as a group to serve as
19 officers during the coming year.

20 For Vice-Chairman, William R. Gregory of
21 Washington.

22 For Vice-Presidents, John L. Fox, New York;
23 Bernard Z. Lee, Texas;

24 and John L. Ricketts of Pennsylvania.

25 And for treasurer, Harry R. Mancher of New York.

1 Mr. Chairman, I move the election of these
2 candidates on a unanimous ballot.

3 CHAIRMAN SCOTT: Do I hear a second?

4 FROM THE FLOOR: (Numerous seconds)

5 CHAIRMAN SCOTT: All in favor say aye.

6 (Response from floor)

7 Anyone opposed?

8 (No response)

9 So passed.

10 MR. CHETKOVICH: The election of Messers. Fox,
11 Lee, Mellin and MacKay to the Board and the resignation of Ray
12 J. Groves leaves us with vacancies for the remaining terms of a
13 year of their terms as Council members at large. I therefore
14 move the election of the following:

15 W. Ian A. McConnachie, Washington;

16 Sol J. Meyer, Oregon;

17 Norman E. Auerbach, New York;

18 John J. van Benten, Indiana;

19 and Robert A. Liberty, Washington, to fill the
20 one year unexpired portions of the Council member at large term.

21 CHAIRMAN SCOTT: Do I hear a second?

22 FROM THE FLOOR: Second.

23 CHAIRMAN SCOTT: All in favor of the motion say
24 aye.

25 (Response from the floor)

1 Any opposed?

2 (No response)

3 CHAIRMAN SCOTT: So ordered.

4 MR. CHETKOVICH: For Chairman of the Board for
5 the coming year, the full committee joins me in nominating
6 Joseph P. Cummings of New York.

7 The Committee also joins me in requesting a
8 unanimous ballot be cast for his election.

9 CHAIRMAN SCOTT: Do I hear a second?

10 FROM THE FLOOR: Second.

11 CHAIRMAN SCOTT: All in favor say aye.

12 (Response from floor)

13 Any opposed?

14 (No response)

15 So ordered.

16 Congratulations, Mr. Chairman. Where are you?

17 (Applause)

18 Our new chairman will be conducted to the podium
19 to assume, at some point in time, his responsibilities.

20 CHAIRMAN CUMMINGS: Thank you very much,
21 gentlemen, ladies and gentlemen, thank you.

22 I appreciate sincerely your confidence, and I
23 pledge to you that I have the time and I will dedicate the time
24 this year representing you to the best of my ability.

25 I'd like to introduce and have the other officers

1 whom you have just elected come up here and thank you.

2 Bill Gregory, Vice-Chairman.

3 (Applause)

4 John L. Fox, New York.

5 (Applause)

6 He's the first member not in public practice to
7 be elected as an officer. Congratulations, John.

8 Bernard Z. Lee, Texas.

9 (Applause)

10 John L. Ricketts, Pennsylvania.

11 (Applause)

12 There's your slate, ladies and gentlemen.

13 PAST CHAIRMAN SCOTT: One of Council's duties is
14 to elect a firm of Certified Public Accountants to serve as
15 auditors of the American Institute of CPAs and subsidiary
16 corporations.

17 The Board of Directors recommends the election of
18 Hurdman & Cranstoun to serve as auditors for the year 1978-'79.

19 May I have a motion to elect Hurdman & Cranstoun
20 as auditors for the next year?

21 FROM THE FLOOR: So moved.

22 PAST CHAIRMAN SCOTT: Any seconds?

23 FROM THE FLOOR: (Numerous seconds)

24 PAST CHAIRMAN SCOTT: All in favor say aye.

25 (Response from floor)

1 Opposed?

2 (No response)

3 So elected.

4 The by-laws provide that the retiring chairman of
5 the Board and the incoming chairman present to Council their
6 joint recommendations for members of the nominations committee.

7 In selecting candidates for the committee,
8 consideration is given to having a geographically representative
9 group, consisting of members who represent various points of
10 view and are well acquainted with people who may be recommended
11 for office. In addition, at least two members of the committee
12 must be members of the Council.

13 Nominations from the floor are permitted.

14 In keeping with the long established custom, I
15 have accepted Joe Cummings request that my name be placed in
16 nomination as chairman of the committee. The full slate of
17 nominees, all of whom have been active in their respective
18 State Societies and in the work of the Institute, proposed by
19 Joe and me is as follows:

20 Stanley J. Scott, Chairman, from Texas;

21 Lowell A. Baker, Ohio;

22 Bernard Barnett, New York;

23 Willard G. Bowen, Colorado;

24 John F. Cerny, Wisconsin;

25 Sam I. Diamond, Jr., Alabama;

1 Donald W. Schroeder, California.

2 I'd like to entertain a motion for the nomination
3 -- that these be nominated as your nominating committee for the
4 next year.

5 FROM THE FLOOR: So move.

6 PAST CHAIRMAN SCOTT: Is there a second?

7 FROM THE FLOOR: Second.

8 PAST CHAIRMAN SCOTT: Any further nominations?

9 (No response)

10 All in favor say aye.

11 (Response from the floor)

12 Any opposed to indicate by the same sign.

13 (No response)

14 So ordered.

15 Gentlemen, we come to the last item on your
16 agenda, and that is the open forum item to give you an
17 opportunity if any of you see fit to, or to desire to bring up
18 any other items that you would care to have discussed at this
19 meeting.

20 FROM THE FLOOR: What is the status of the
21 Washington governmental hearings as it stands at this point.

22 PAST CHAIRMAN SCOTT: What governmental hearings?

23 Maybe Wally can respond to that. We will have
24 some proceedings during the convention on that point, that I
25 think will bring them out.

1 PRESIDENT OLSON: You are asking the question as
2 to what kind of Congressional hearings may come in the future.
3 Just a little over a week ago, or approximately a week ago,
4 Senator Eagleton in a telephone speech to the Missouri Society
5 indicated he was somewhat disappointed in the way the Institute
6 was carrying on its program. He had raised a number of issues
7 with respect to scope of services, with respect to firm-to-firm
8 peer revenues and the imposition of sanctions by the executive
9 committee of the two sections.

10 I think he was clearly expressing a number of
11 reservations about the adequacy of what we were doing, and I
12 believe it's his clear intention to hold hearings sometime next
13 spring.

14 He's the chairman of the subcommittee on
15 governmental efficiency in the District of Columbia, and it's
16 that committee which inherited the responsibilities of the prior
17 Metcalfe subcommittee.

18 And as you may recall, the author of the report
19 known as The Accounting Establishment, the staff study, that
20 author was John Chesham, and he's transferred to the staff of
21 Senator Eagleton's sub-committee, so that is where that stands.

22 We also have a communication from Congressman
23 Eckhard from Texas who is the chairman of a sub-committee under
24 the Interstate and foreign commerce committee on the house side.

25 His sub-committee is the one that has the

1 authority to move any legislation dealing with the securities
2 laws, the federal securities laws. Congressman Eckhardt in a
3 letter indicated that while he continues to favor the
4 profession taking its own initiative in carrying out its own
5 program of reform, quotes, he nevertheless indicated an intent to
6 hold hearings at sometime next year, probably next spring. His
7 intent in holding the hearings is to carry out what he
8 considers to be the responsibility of his sub-committee of
9 overseeing the adequacy of the work of the SEC, and he
10 indicates that he sees that the professions work is a part of
11 that picture, and therefore he will look into the profession,
12 and in those hearings will ask the profession to testify as to
13 what it is doing and how well it is doing in meeting the
14 criticism and the objections.

15 Also it's anticipated that the American Law
16 Institutes recodification of the Securities Act will be
17 introduced in Congress next spring, in the next session of
18 Congress and Congressman Eckhardt has indicated that he might,
19 in the process of holding public hearings on that
20 recodification, include the professions programs as a part of
21 those hearings.

22 I think clearly we can expect an ongoing set of
23 hearings looking into the profession for some time into the
24 future.

25 PAST CHAIRMAN SCOTT: Any other items to bring

1 forth before this meeting?

2 Hearing none, it will be my pleasure to
3 entertain a motion for adjournment.

4 FROM THE FLOOR: So move.

5 PAST CHAIRMAN SCOTT: We will vote on it by
6 rising and leaving. I now remind the Board that we have a
7 foundation meeting immediately after this.

8 (Whereupon, the meeting adjourned.)

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