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## APB: Continuing Business at the Old Stand, Spring Meeting of Council May 2, 1972

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"The APB: Continuing Business at the Old Stand"  
Philip L. Defliese, Chairman  
Accounting Principles Board  
Spring Meeting of Council  
May 2, 1972

Although the Council has changed me from a lame duck to a dead duck -- I must tell you that although the APB is definitely moribund at this point, we expect to go out with a blaze of glory.

We, as has been indicated, have received the franchise until year end at least, and it is quite possible that it may be longer. If it appears as though we may need a longer time, we will probably ask for an extension from the Board of Directors which would make it possible for us to continue operations for a short period into '73 until the new Financial Accounting Standards Board becomes operative.

As the Wheat report indicated, the momentum of the present APB should not be lost. And while it is inevitable that there will be a hiatus created, because it will take the new Board some time to organize, nevertheless we would hope to get as much done before that hiatus is created.

Naturally, the selection of the new members of the Financial Accounting Standards Board will be very critical and, of course, will take some time. And that group, once it does organize, will perhaps need to study the Trueblood report which we hope will be out by that time. At any rate, it will be some time before that Board will be able to establish its philosophy and proceed diligently on the very full agenda which we will turn over to it.

The Planning Committee has, of course, had this in mind for some time, ever since the Wheat report was published. And prior

to the meeting of the APB that took place here last week the Planning Committee studied the priorities that were essential in order to accomplish all these matters as quickly as possible before year end.

Of course, all the matters which the Board undertakes are controversial. However, there are degrees of controversiality and we have, in assessing the priorities, given that due consideration.

I am sure it is obvious to many of you that for some time now the Board has attempted to narrow alternatives in accounting rather than to reexamine the basic concepts. We had on our agenda the need to make such a reexamination shortly after we issued Statement 4 which essentially enunciated the status quo concerning basic concepts. However, it was at that time that the Trueblood group was authorized and we felt that until that report was issued, it would be pointless to reexamine basics and, instead, we should narrow alternatives. That has been the thrust of our program over the last two years.

The Planning Committee, in setting priorities, established three categories:

(1) Those on which we feel an Opinion can be issued within the next year. We have a number of issues that are close to completion, and in order to further the standardization of reporting we would hope to achieve the actual publication of certain Opinions.

(2) Another category concerns audit guides. We feel that there are many that are in varying stages of progress that could be expedited (this applies to certain position papers as well) so that

the work of these special committees will not be lost because if we can reach agreement and the guides are published before year end, the new group will not need to concern itself with them. This will avoid a delay in getting out, in many cases, urgently needed audit guides.

(3) Another category consists of those areas where a high degree of controversy exists. We feel that perhaps those controversies could not be resolved by the issuance of an Opinion before year end. These require exposure drafts and time for responses. Consequently, we would turn these over to the new group. But, again, in order to minimize this tremendous hiatus that will obviously take place, we will continue our discussions both within the Board and with members of the FEI and the SEC in order to further their progress toward resolution. The objective is to produce a position paper, which will set out the pros and cons concerning proposed solutions, to turn over to the new group. These papers would also include the viewpoints of FEI and SEC so that the package will be as complete as possible. In some of these areas we have actually had public hearings and a public record is available so that the new group will be able to take up where we left off.

In many cases, in the light of what was referred to in the Wheat report as the need for special task forces, it is quite likely that many of the members of the subcommittees that we have dealing with special subjects will be asked by the new group to continue their voluntary action in order to further progress and

produce an input for the new group to rule upon. Hopefully, these will be furthered rather than held up at this time.

Now let me just briefly review the three categories with you and give you some indication of what you may expect.

As to those issues on which we expect to issue Opinions: you should know that Opinion No. 22 has just been published; this is on the requirement to disclose basic accounting principles, policies and the like. Opinions No. 23 and 24 were approved for publication at the last meeting this last week and are now going to the printer. They will be out no doubt before the end of the month. So you will soon have those three Opinions in hand.

Opinions No. 23 and 24 deal with special areas of tax allocations; they deal with the need to, or no need to, accrue taxes on income of unconsolidated subsidiaries and in situations where otherwise there has been rather a vagueness concerning the accrual of tax on the general reserves of savings and loan associations, on the policyholders' surpluses of a stock insurance company, and with the need to accrue a tax on the income reflected as a result of the use of equity method on investments other than subsidiaries and joint ventures. So those areas will be clarified.

This leaves still open two major issues in the tax allocation area; one on intangible drilling costs of the oil and gas industry, which we will embody with the rest of the problem on oil and gas, and the subsidies under the Maritime Commission Act. The latter is being held up pending regulations to be issued under that Act. Those two will probably be turned over to the new Board.

At this last meeting we also approved two exposure drafts for new Opinions, one on stock compensation and the other on early extinguishment of debt. Those will be out within the month and we expect that they will be issued by early fall.

In the leasing area we have basically three categories and we expect to be able to deal effectively with two of the three. The first is accounting for leases by lessors that are manufacturers or dealers of equipment and the sales of such leases to third parties, or the sales of such equipment to third parties.

The second is the financing method for leasing companies; this needs clarification. Both of these are less controversial than the third area which I shall talk about later.

Another area which we have accelerated action on is extraordinary items. I am sure all of you are aware of the fact that there has been a proliferation of extraordinary items in financial statements of the past two years which raises many questions concerning the appropriateness of the classification of these items.

We are concerned as to whether or not Opinion No. 9, which created the extraordinary item, may be in the process of erosion. Opinion No. 9 dealt in rather broad generalities. Therefore, we will clarify the guidelines for extraordinary items and perhaps give illustrations so that we may get closer to a cookbook approach. Unfortunately, this has been the experience over the years and it is the only way in which we can prevent erosions of Opinions. I don't know whether the new Board will have any better answer to

that one, but certainly it is a continuing problem.

The last area is on interim financial statements. The increasing use of interim financials and the filing of 10-Qs has focused considerably on the need for guidelines for the determination of quarterly income. Differences of opinion exist as to whether or not certain matching concepts are necessary, or whether certain items should be expensed as they occur. This needs clarification. This subject, of course, is a little more controversial than perhaps some of the others I have mentioned and it may take a little more time. We may not be able to complete work on it to get an exposure draft and an Opinion out before year end, but we will try.

You see, therefore, that we have issued 24 Opinions, and we have on the docket the possibility of the issuance of six more. All told, if we can achieve this objective, we will have issued 30 Opinions -- and I might add, 13 of those in the last two years.

In the second category on guides and position papers, we hope that the work of those special committees will be completed and that the Board will be able to give approval for their publication; such areas are savings and loan companies, finance companies, broker-dealers, TV films, franchise accounting, land development accounting, educational institutions, health and welfare, stock life insurance companies (mutuals have been excluded) to name just a few. We may be able to get more done, but I think if we can finish these we will have done a great deal. Many of these committees have been working for a number of years. Their work, in many cases,

is close to fruition; some guides have been exposed, some have need for re-exposure. But nevertheless, work on these will be accelerated so that by year end we might have most of them out.

The last area consists of those matters which will require further discussion and the development of position papers to turn over to the new group. These are first, marketable securities. This has been a hot potato. We have been up the hill and down again on the question of fair value reflected in income regardless of realization or nonrealization, and that is a difficult one to resolve.

The second is the oil and gas industry about which you have heard a great deal. Whether or not the new group will decide on permitting two basic methods or resolve it in favor of one remains to be seen. We hope to continue those discussions and present all the pros and cons on both methods to them, together with the public record, to see what they will do.

Lease capitalization is the last item on the lease issue and, of course, that one, as well as the oil and gas, has been the recipient of a lot of flack from members of Congress and members of Government pointing out to us that we might be hindering the welfare of the country if we, through our accounting methods, require certain treatments.

Lastly, the diversified company issue, which has been rocking along, unfortunately not too fast because there are many unresolved issues. But that one, too, will be turned over to the new Board.



Gentlemen, as I said before, we hope to complete our record through the end of the year with the possibility of having issued close to 30 Opinions and a considerable number of audit guides and position papers.

I must add that I have received a great deal of satisfaction from my work with the Board. I can't overemphasize the fact that the members of the Board have always acted independently and have attempted to do what they thought was in the best interest of the profession. We have compromised many of our views. I am sure the new Board will find that compromise will have to be the order of the day. It is only in that fashion that progress will be made, because in this art of ours we cannot establish basic truths that are going to be so well accepted that controversy will be nonexistent.

So I certainly wish the new Board the best of everything.

Thank you.