AMERICAN INSTITUTE OF ACCOUNTANTS
135 CEDAR STREET, NEW YORK, N. Y.

FOR RELEASE: Immediately

The recommendation of the stock list committee of the New York Stock Exchange that future quarterly earnings reports of listed companies be prepared on the basis of twelve-month periods was praised by Frederick H. Hurdman, chairman of the American Institute of Accountants special committee on co-operation with stock exchanges, in a statement made public today.

Pointing out the fallibility of quarterly reports, Mr. Hurdman characterized the letter which the exchange has sent to its listed companies as a measure which should result in more reliable information for investors. He also made the suggestion that in certain businesses publication each quarter of three-months earnings reports as well as reports for the preceding twelve months might be preferable to publication of either without the other.

Following is Mr. Hurdman's statement:

"The policy just announced by the New York Stock Exchange to encourage listed corporations to file quarterly earnings reports on a twelve-months basis is sound in principle and should provide securities holders with more reliable information regarding the financial progress of their companies.

"The recommendation of the committee on stock list of the exchange has been criticized on the grounds that it would result in less information regarding the current progress of listed companies than is now available through publication of reports for each quarter. Critics have said that the exchange has exaggerated the tendency of the investor to estimate the annual earnings of the company by multiplying by four its published earnings for any one quarter. They characterize the new policy as a retrograde step not consistent with the tendency to give investors complete information regarding the operations of companies offering their securities to the public.

"The contrary is true. Twelve-months earnings reports published quarterly are a more reliable means of reporting the current earnings of the corporation than reports for each quarter. In addition twelve-months reports make it possible, by comparison of any two consecutive reports to determine exactly the difference between earnings in the last quarter reported and in the corresponding quarter of the previous year. The difference between earnings in corresponding quarters of different years is a more reliable index of financial progress than the difference between earnings in consecutive quarters, which is often misleading because of the presence of variable factors.

"It should be remembered that accounts are essentially continuous historical records and accounting statements for brief periods of time are less significant and valuable than those for longer periods of time. Extraordinary and unusual items of income or expense influence the net result shown for a given quarter to a greater extent than they would influence the net result shown by an annual statement which includes the same items. Furthermore, certain charges and credits must be assigned, on the basis of personal judgment and convention, to one period or another, and when the period is as short as three months reports of current earnings including such items are likely to be misleading to uninformed readers. The difference between earnings in different quarters is likely to be very great in the case of corporations whose operations are seasonal in nature. Quarterly earnings statements of such corporations could only be misleading to investors who are not acquainted with the cycle of operations in the industries to which the companies belong.

"Quarterly reports must necessarily be based to a large extent upon estimate and in all estimates there is present the possibility of error no matter how carefully all factors are weighed. At best they are only approximations of the truth. Even though earnings for particular quarters could be determined exactly, they would, for other reasons which have been cited, still tend to be misleading.

"In its recommendations to Congress during consideration of the securities exchange bill and later to the Securities and Exchange Commission the American Institute of Accountants has pointed out that earnings reports on the basis of periods as short as three months are likely to be misleading to the investor and has recommended that, where quarterly reports are required, companies be given the option of preparing them on the basis of twelve-month periods. If the New York Stock Exchange can encourage wide adoption of the practice of reporting earnings on the basis of twelve month periods the interests of investors will be well served.

"The criticism that twelve-months reports do not reflect earnings for the current quarter could be met by publication of both types of reports, as is the case with most public utilities. This would impose no additional burden on the companies reporting, and would provide investors not only with information as to current earnings but also with information necessary to gauge the trend of earnings."