THE S.E.C. AND CANADIAN OPERATIONS

Address of

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before the

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on

Financial Management and Petroleum Accounting

The Banff School of Fine Arts
and
Centre for Continuing Education

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Beginning with your Chairman's first letter over six months ago and a supporting letter from Senator Cameron, I have looked forward with pleasure to this opportunity to visit Canada again. My last visit was to Montreal, with a side trip to Quebec and the Gaspé peninsula. On that occasion I addressed the annual conference of The Canadian Institute of Chartered Accountants on the subject "The Canadian Accounting Profession and the S.E.C." and found accounting in the petroleum industry to be a "hot" subject. Some of you may have attended that meeting. On this occasion I have been given a choice of subjects: "The S.E.C. and Canadian Operations" or "The Growing Sphere of S.E.C. Influence." I chose the first topic[1] and left the second to someone outside the Commission.

Since I understand that enrollment at these conferences includes practicing chartered accountants and consultants as well as financial and accounting personnel in the Canadian oil industry, I interpreted my assignment as calling for a discussion of the problems, primarily of an accounting nature, that arise when a Canadian company comes under the jurisdiction of the S.E.C. The staff of the Commission has had an excellent opportunity to observe, and in a way to participate in, the rapid growth of the industry which has taken place since the close of World War II. I am sure you do not expect me to describe this growth in detail, but much material for such an undertaking may be found in the registration statements which have become effective since the early fifties.

The Petroleum Accountants Society of Western Canada was founded in 1953, following closely on the development of the industry here in Western Canada. Merrill

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[1] The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues on the staff of the Commission.

Petroleums Limited, a prominent company in the industry, was incorporated in May 1951 as a private company under the laws of the Province of Alberta, Canada, to search for, develop and sell oil and natural gas. The evolution of this company can serve to illustrate many of the problems arising in the growth of the industry. On December 6, 1952, Merrill was converted to a public company and on April 2, 1953, it consummated the amalgamation with Asher Oil Company Limited after which it had 1,964,495 shares of $1.00 par value capital stock outstanding. The company's first prospectus under the United States Securities Act of 1933, which became effective May 4, 1953, was filed with the Commission on March 31, 1953. This was only one of 621 statements filed in that fiscal year. The offering was for 800,000 common shares of $1.00 par value, 400,000 in Canada at $4.50 and 400,000 in the United States at $4.60 per share, in each case with underwriting commissions of l0%.

The front page of the prospectus carried a line across the top reading "Securities in Class 'D' under Georgia Securities Law. These are speculative securities." This legend indicates that this issue had been "blue-skyed," at least in Georgia! Another sentence tells us that a copy of the prospectus was filed with the Registrar of Joint Stock Companies for the Province of Alberta, Canada. Next appears the Securities Act requirement--in capital letters: "THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE." The staff, in accordance with Commission practice, examined the filing and, you may be sure, asked some questions and required some changes, after which the statement was permitted to become effective.

Under the required warning another line stated again that the common shares were speculative securities and referred specifically to two paragraphs under the capitalization section of the prospectus. The first of these stated that the 800,000 shares offered would constitute approximately 29% of the 2,764,495 shares to be outstanding on completion of the financing and that purchasers would have paid approximately $3,617,643 for them. The 1,964,495 shares outstanding after the amalgamation with Asher would be 71% of the total shares outstanding and the consolidated balance sheet would show a total consideration of $4,771,070 received for these shares, all but approximately $200,000 being for cash directly or indirectly. In other words, this paragraph points up that the public was paying $3,600,000 for about $1,400,000 in book value. The prospectus of course disclosed the details of the various oil and gas interests of the constituent companies.

The second paragraph referred to reduces barrels of oil and MCF of gas of proven reserves to percentage points per share and states that the offering price already reflects and discounts future discovery of reserves in excess of those presently owned. This type of "dilution" disclosure is required today for speculative issues.

Further description of Merrill's history is unnecessary, for I am sure all of you are familiar with it. However, a glance at the financial statements is in order. The pro forma consolidated balance sheet was prepared in the manner which today would be referred to as a "pooling of interests"--that is, assets and liabilities were combined and intercompany items eliminated. Merrill shares of $1.00 par value were substituted for no par shares of

Asher with the excess of stated value of the latter over the Merrill shares being added to capital surplus. Deficits of the two companies were combined. The analysis of the share capital of Merrill reveals a familiar pattern. The original capital was 10,000 shares with $10,000 paid in--all assigned to share capital. An additional 8,333 shares were issued for property which included $8,333 in cash and interests in petroleum and natural gas rights on acreage under exploration and an interest in acreage since proved unproductive. These shares were split on a ten-for-one basis to shares of $1.00 par value resulting temporarily in a debit balance in capital surplus absorbed two weeks later by premiums on additional shares sold for cash.

Merrill's history must be interrupted here to note the origin of the company, now headed by our first speaker of this morning, whose financing and completion were necessary steps in the future development of Merrill and Western Canada. This was Trans-Canada Pipe Lines Limited which was created by special Act of Parliament of Canada in 1951 to own or lease and to operate a natural gas pipe line system. Trans-Canada filed a registration statement with the S.E.C. on November 26, 1956, for the sale of units of subordinated debentures and common stock, part in Canada and part in the United States, for a total of $112,500,000. The prospectus is dated February 13, 1957. The financial statements in this filing are interesting as an example of what can be done to adapt to unusual situations within the latitude available under the accounting requirements in S.E.C. rules. The company from inception to December 31, 1956 was primarily in the construction stage for which a balance sheet and statements of receipts and disbursements were appropriate. However, there was in this period a small operation in a line leased to others which was reported in a separate column on the same page with the cash transactions. All of this analysis tied in to the appropriate items in the balance sheet.

Unusual problems such as these can be resolved more easily by conferences with our staff. Each of our forms contains an instruction which is an invitation to discuss problems with the staff. This can be done by telephone, letter or conference. Sometimes a telephone call will save hours of conjecture and avoid a long trip. It is just as easy for us to talk with you in Calgary or Vancouver as it is with registrants in Denver or Seattle.

Now let us return to Merrill. Four years after Merrill's first public offering, Pacific Petroleums Ltd. proposed that Merrill amalgamate. In contrast to the Asher transaction this action was treated as a purchase with 1,468,998 shares issued at $22.00 per share for the net assets of Merrill.

The prospectus dated November 14, 1957, contains a number of points which can arise in this situation. Notes to the financial statements of Merrill disclose a decrease in estimates of oil and gas reserves adopted by the Board of Directors with a resulting increase in depletion charges and decrease in income and earned surplus in the three years affected. The S.E.C. accounting staff, of course, has the advice of the Commission's engineer in technical matters of this kind which bear on the propriety of the accounting. The same note reports a retroactive change from the diminishing balance method of measuring depreciation of drilling and production equipment to the straight line method. This had the effect of improving earnings for the early years. The effect of both of these changes on previously published profits was set forth in a note to the summary of earnings, and the independent accountants' opinion included a middle paragraph comment on the change in depletion. This is a solution which is adopted when financial statements show a change in accounting from that previously followed by a registrant.

The circumstances of the Pacific-Merrill amalgamation were accepted as supporting the establishment of new values for assets acquired by the issuance of stock. In this case the excess consideration over underlying book values (after writing off deferred geological and geophysical expenses and organization and refinancing expenses to conform to accounting procedures of Pacific) was assigned in about equal amounts to producing properties and non-producing properties. This treatment made it necessary to develop an adjusted combined pro forma statement of earnings for one year in which the geological and geophysical expenses of Merrill and depletion on the increased values of producing properties were deducted in arriving at the combined figures. Generally such pro forma adjustments in purchase transactions are limited to a single year or to a year and interim period to the latest balance sheet date.

Pacific Petroleums affords another example of the problems that have been encountered in the past and could arise again. A recent prospectus covered an exchange offer of common shares for Class A shares of Bailey Selburn Oil & Gas Ltd. The pro forma statements in this case apply the same principles as in the Merrill case. Notes to the pro forma balance sheet reveal that Bailey Selburn's depreciation provisions are adjusted to conform to Pacific and that the excess of the purchase price over net equity was allocated to producing properties subject to amortization on a unit of production basis. Note that in Pacific we have seen two major acquisitions treated as purchases with consequent increases in depletion charges. The early history of Bailey Selburn discloses that it was formed by combining a number of companies in 1952 through exchanges of stock and the accounting was on a pooling of interests basis. This was an early case which was considered in light of the American Institute of Accountants Research Bulletin No. 40 on Business Combinations, published late in 1950. It was concluded in this case that the facts supported carrying forward predecessor costs rather than the introduction of increased values on a purchase basis.

The record of Pacific reveals still another transaction of this kind. In December 1958 Pacific acquired all of the assets and undertakings of Canadian Atlantic Oil Company Ltd. in exchange for stock. This acquisition was accounted for as a "pooling of interests." This suggests a look at the history of Canadian Atlantic. We find the story in a prospectus dated November 14, 1951, which contains a pro forma balance sheet dated July 31, 1951, giving effect to the amalgamation of three companies. A long footnote describing the transaction reveals that all three companies wrote up their properties in connection with the transaction. The pro forma statement shows a deduction in the equity section of the balance sheet for "Amounts comprehended in, and applied in reduction of, capital stock and capital surplus in respect of write-ups of assets but eliminated therefrom in these financial statements." This method of showing the excess as a debit item in the equity section has been used in other situations when properties have been written up which are legal actions in some of the states but considered by us to be contrary to our view that properties should be carried at cost--a view shared, I believe, by the Canadian Institute of Chartered Accountants.[2]

An incident of ten years ago involving another Canadian company will serve also to illustrate the problems of accounting for assets acquired in exchange for stock and

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[2] Bulletin No. 11, Accounting and Auditing Practices, The Canadian Institute of Chartered Accountants.

other aspects of reporting for enterprises in the exploratory or development stage. The problem of accounting for large issues of common stock in exchange for claims, leases, promotional services and perhaps some solid assets was a recurring feature of registration statements for promotional enterprises in the first years of the Commission's existence. After a number of Commission proceedings involving the problem a solution was developed whereby properties acquired for stock were reported in numbers of shares with an adequate description of properties acquired--dollar amounts were to be extended only for items acquired for cash. This of course precluded the preparation of a balance sheet in customary form. Instead, Statements of Assets and Unrecovered Promotional, Exploratory, and Development Costs; Statements of Liabilities; Statements of Capital Shares; and Statements of Cash Receipts and Disbursements were prescribed for this type of company. This was a new idea to most accountants although for many years the Texas Pacific Land Trust had used this method to report on its vast holdings of and transactions in undeveloped land.

The Canadian company which I have in mind had used this form of reporting in an initial filing with the Commission and in annual reports filed for several years thereafter. The next filing under the Securities Act was after the company acquired a subsidiary from its principal stockholders in exchange for shares. However, the prescribed form for registration of certain companies in the promotional and exploratory stage under the Securities Act states that the form may not be used if the registrant has or intends to acquire an active subsidiary. Since the company was still in the promotional stage the staff felt the form of the financial statements should not be changed, that separate statements in columnar form should be presented for the parent and for the subsidiary and that the parent should report its investment in the subsidiary in number of shares given in exchange but not in dollars. The suggested statements were furnished but the formal balance sheets and operating statements were retained on the grounds that the laws of the Provinces of Alberta and Ontario required such statements. This seemed to present an impasse until the registrant's representatives proposed that a reserve to reduce the carrying value of the investment in the subsidiary to underlying equity which reflected cost of properties on the subsidiary's books be provided out of capital surplus which had resulted from the acquisition entry as recorded. This solution was accepted and the accountants' certificate stated that the reserve was established "to meet certain requirements of the Securities and Exchange Commission." The same style was used in the report to stockholders and the auditors' report said that the statements, except for this change, were "properly drawn up so as to exhibit a true and correct view." This demonstrates one solution to a conflict of laws and ideas. However, other Canadian companies have used our promotional type financial statements and their independent accountants have certified without qualification in the style developed for extractive industries in the promotional or exploratory stage. The use of this form of reporting has avoided many valuation problems for sponsors of promotional ventures--particularly in mining. Oil and gas companies make the transition to full scale reporting more promptly than the mining companies.

In my discussion of the growth of certain oil companies I have described amalgamations recorded as purchases and some as "pooling of interests." This latter term is used in notes in some of the Canadian prospectuses, but I am not aware that this problem has been considered officially by the Canadian Institute of Chartered

Accountants. However, it appears that chartered accountants are familiar with the term and apply such accounting possibly based upon tests set forth in publications of the American Institute of Certified Public Accountants.[3] This has been one of the most difficult areas in accounting to administer equitably. In August of 1958 at a meeting of the American Accounting Association I undertook to explain the Commission's experiences with the concept.[4] In that paper I said of the most persistent test of a pooling--continuity of ownership--that registration under the Securities Act of 1933 of shares received in the transaction or other evidence of intent to dispose of them is ordinarily fatal to a pooling of interests solution. At that time securities issued in most merger plans were exempt from registration because no sale was deemed to be involved as that term was interpreted under the Securities Act.[5] But the ink was hardly dry before the Commission's experience with Great Sweet Grass Oils Limited and Kroy Oils Limited[6] culminated in the amendment of Rule 133 in 1959[7] and the adoption of Form S-14 under the Securities Act by which a proxy statement may be converted into a

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[3] Accounting Research Bulletins 40, 43 (Ch. 7C), and 48.

[4] The Accounting Review, April 1959.

[5] See Byron D. Woodside, "Particular SEC Merger Considerations," an address presented before the Finance Orientation Seminar No. 121-91, American Management Association, New York, N. Y., November 1957, and published in condensed form in Taxes, February 1958, pp. 136-144.

[6] 37 SEC 683, 1957.

[7] 25th Annual Report, Securities and Exchange Commission, pp. 15 and 20.

prospectus. Since these actions registration of securities issued in a merger transaction is not conclusive as to intent of all parties involved.[8]

A pooling solution under the current Institute bulletin requires that substantially all of the equity interests continue or, put the other way around, that no important part of the former ownership be eliminated. It is impossible to catalogue all of the situations requiring a decision under this head. Factors to be considered are the need to meet pressing financial obligations, to provide for settlement of estates, to obtain reasonable diversification of investments; the retirement of elderly members of family enterprises; and the capacity of continuing members to contribute to the enterprise.

Continuity of management has been deprecated by some critics as a poor test for an accounting policy. However, especially in closely held companies, this is associated with an intent to retain the equity interest and may be added evidence of continuity. Such intent is often bolstered by management contracts running for several years. Elimination soon after the merger is effected of parties represented as essential to the operation is not the best way to demonstrate good faith.

The acceptance of relative size as a test for qualification as a pooling has been eroding for many years. For ten years prior to the publication of Accounting Research Bulletin No. 48 in January 1957, relative size had been considered a minor factor in judging whether a combination was a pooling or a purchase. The inclusion in paragraph 6 of Accounting Research Bulletin No. 48 of the 90% to 95% or more of the voting interest in the combined enterprise as a test was expected to screen out marginal cases.

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[8] See Manuel F. Cohen, "Rule 133 of the Securities and Exchange Commission," The Record of the Association of the Bar of the City of New York, April 1959, p. 162.

However, the arguments brought to bear under the provisions of paragraph 7 have practically eliminated size as a factor. Paragraph 7 states:

> "No one of the factors discussed in paragraphs 5 and 6 would necessarily be determinative and any one factor might have varying degrees of significance in different cases. However, their presence or absence would be cumulative in effect. Since the conclusions to be drawn from consideration of these different relevant circumstances may be in conflict or partially so, determination as to whether a particular combination is a purchase or a pooling of interests should be made in the light of all such attendant circumstances."

This subject is currently under study by the Accounting Principles Board, but situations disclosed in current filings must be considered in light of experience to date.

During the past ten years other changes in the application of accounting principles in the oil and gas industry have been observed. A survey of prospectuses for companies in this field reveals that these changes have been taking place in Canada as well as in the United States. A revision in thinking is noted particularly as to accounting for dry holes and determining the basis for measuring depletion and amortization by the unit of production method.

There are very few treatises on the subject of oil and gas accounting. Two of these were written, one in Canada, one in the United States, by partners of a well-known accounting firm with offices in both countries.[9] Robert E. Waller, with an assist from the Canadian Institute of Chartered Accountants, scooped his United States partners by over two years. His preface contains some pungent observations on the variations in accounting methods in the industry and suggests this deplorable situation found its way from the United States into Canada. His work is a valuable contribution toward a

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[9] See also Accounting for Oil and Gas Producers by C. Aubrey Smith and Horace R. Brock, Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959.

solution to this problem which has been of considerable concern to us at the S.E.C. Mr. Waller states the case so neatly that I would like to recall his words to you:

> "* * * Because it is desirable that the industry should strive towards some common standards of practice (although it is recognized that absolute attainment of this objective is unlikely, in view of the wide variations that exist and the conviction with which the various practices are supported), an attempt has been made to segregate those practices which might be considered of doubtful propriety from those which are more likely to be deemed acceptable; the latter group includes methods which are in conflict, and from these an attempt has been made to Justify a preference. It should be stated here that the accounting practices for which a preference is indicated may not necessarily be the most desirable from the point of view of income tax; the income tax aspects of oil and gas accounting in Canada are still somewhat nebulous in certain respects and, in any event, it would be undesirable to permit them to influence a work which is based primarily on practical and theoretical accounting considerations."[10]

So far I have avoided a technical recital of the accounting provisions of Acts administered by the Commission and the rules and forms adopted under their authority. Our guide to form and content of financial statements is found in Regulation S-X which is supplemented by a series of accounting releases. Number 4 in this series was published April 25, 1938, and still is the significant statement of the Commission's administrative policy on financial statements. This policy was reemphasized last January when the Commission found it necessary to express some views on accounting for the "investment credit," a new idea in United States tax law which stirred up a considerable difference of opinion in business and professional accounting circles:[11]

> In Accounting Series Release No. 1, published April 1, 1937, the Commission announced a program for the purpose of contributing to the development of uniform standards and practice in major accounting questions. Accounting Series Release No. 4 recognizes that there may be

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[10] Robert E. Waller, <u>OIL ACCOUNTING, Principles of Oil Exploration and Production Accounting</u>, The Canadian Institute of Chartered Accountants, University of Toronto Press, 1956, p. ix.

[11] Accounting Series Release No. 96, January 10, 1963.

> sincere differences of opinion between the Commission and the registrant as to the proper principles of accounting to be followed in a given situation and indicates that, as a matter of policy, disclosure in the accountant's certificate and footnotes will be accepted in lieu of conformance to the Commission's views only if such disclosure is adequate and the points involved are such that there is substantial authoritative support for the practice followed by the registrant, and then only if the position of the Commission has not been expressed previously in rules, regulations, or other official releases of the Commission, including the published opinions of its Chief Accountant. This policy is intended to support the development of accounting principles and methods of presentation by the profession but to leave the Commission free to obtain the information and disclosure contemplated by the securities laws and conformance with accounting principles which have gained general acceptance.

Although some critics of the position the Commission took on the investment credit may have some doubts about the present state of affairs, it has been a consistent practice over the years to seek the advice of the profession and business men as individuals and through cooperating committees. This is a reciprocal arrangement, particularly with the American Institute of Certified Public Accountants. We also attempt to keep informed with respect to accounting and auditing developments in all parts of the world from which new registrants may come and where present registrants with the Commission are in business. A few years ago several of our senior staff members had opportunities to study abroad on scholarships, and one who had this privilege was invited to return to England to testify in the hearings on the British Companies Act, 1948, conducted by the Jenkins committee. Consequently we have read the Jenkins Report with considerable interest for the light it throws on current thinking on accounting matters in the United Kingdom.

The Canadian Chartered Accountant and statements issued by the Committee on Accounting and Auditing Research serve to keep us informed on Canadian practice.

Similar publications of the AICPA I am sure are not unknown here. Since my last visit to Canada[12] the Canadian Institute has strengthened its position on the auditor's responsibility for the validity of the inventory figure[13] and the auditor's report.[14]

Some unpleasant events in the United States involving inventories caused the Commission to issue a release discussing the problem of certification of income statements when the independent accountant was engaged on a first audit and consequently could not observe the beginning inventories for a series of accounting periods.[15] The Committee on Auditing Procedure of the AICPA dealt with the same subject in its Statement on Auditing Procedure No. 32.[16] Appropriate representatives of the Institute had given us valuable assistance in drafting our release at a time when the Commission felt an announcement was urgently needed.[17]

In discussions with prospective registrants under the Securities Act the question of independence of the accountants is likely to come up for consideration. The term "independent" as used in the Securities Acts has been implemented by rules and official interpretations developed over the years under a wide variety of circumstances. Although the subject has been discussed on numerous occasions, I raise it again in light of Mr. T.

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[12] Canadian Accounting and the S.E.C., The Canadian Chartered Accountant, November 1958.

[13] Bulletin No. 16, May 1959.

[14] Bulletins No. 17, October 1959, and No. 18, August 1960.

[15] Accounting Series Release No. 90, March 1, 1962.

[16] September 1962.

[17] See The Journal of Accountancy, April 1962, pp. 9, 31-37; May 1962, pp. 71-73.

A. M. Hutchison's paper on "Auditing and the World Economy" presented at the Eighth International Congress of Accountants in New York last September.[18] Mr. Hutchison recognizes that an essential requirement for the auditor in reaching an objective view "in applying proper accounting principles to the financial position of his client" is that he should be independent. However, he goes on to say that "While this principle is accepted it has not yet been extended to the point where it is considered that the auditor cannot be an officer, director or employee of the client or have any financial interest in the client or permit members of his family to be in such a position." Generally these situations would cause an accountant to be deemed not independent under our rules. I do not believe any of you would consider an accountant to be independent of a client for which his wife served as a corporate officer or that he would be independent if his wife were the only daughter of the owner of the business under audit. Except on this matter of independence, as to which many accountants in the United States feel our views are too severe, but which we think experience proves necessary, Mr. Hutchison's paper reveals a close similarity in Canadian and United States auditing practices and use of the term "generally accepted accounting principles." In explaining the latter term he says:[19]

> "In determining, then, what are generally accepted accounting principles, the independent public accountant in Canada draws very largely on the experience developed over the years as to which accounting conventions and practices have received general approval by the profession for their soundness. In this connection, many of the accepted accounting conventions and practices have stemmed from those developed in the United Kingdom and in the United States of America. A very substantial flow of capital into Canada from the United States has taken place in recent years. This has encouraged the adoption in Canada of the form of financial presentation and the recognition of accounting principles used in the United States, as many financial statements are prepared for ultimate

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18 The Canadian Chartered Accountant, December 1962, p. 576.

19 The Canadian Chartered Accountant, December 1962, p. 578.

> consolidation with those of a parent enterprise in the United States. For such consolidation to be meaningful it is, of course, essential that the financial statements of the Canadian subsidiary company be prepared in accordance with the same accounting principles used by the parent company."

If you have kept up with your general professional reading you may wonder what these generally accepted accounting principles are that we talk about so much in the United States. We have heard an insistent demand during the last few years for a concise statement of accounting principles which could be used to find the proper way to handle all situations. There have been some notable and useful contributions during this search for a consistent statement of principles. Outstanding are the series of compact statements prepared by the American Accounting Association beginning in 1936; Paton and Littleton's elaboration of this first statement in 1940;[20] and Audits of Corporate Accounts in 1934 and Sanders, Hatfield and Moore's A Statement of Accounting Principles in 1938, both published by the American Institute of Accountants. These are not hoary with age when you remember that the first known printed treatise on accounting was published in 1494 describing the results of an evolution that had been going on for at least three hundred years.[21]

The two research studies on basic postulates and broad accounting principles published by the Director of Research of the AICPA were financed by the AICPA in an effort to answer the clamor for a logical statement of generally accepted accounting principles. The results call for such a wide departure from present accounting practice that the Accounting Principles Board was moved to say that "while these studies are a

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[20] An Introduction to Corporate Accounting Standards, reprinted in 1955 and known around the world.

[21] See Accounting Theory: Continuity and Change by A. C. Littleton and V. K. Zimmerman, Prentice-Hall, Inc., Englewood Cliffs, N. J., 1962, p. 1.

valuable contribution to accounting thinking, they are too radically different from present generally accepted accounting principles for acceptance at this time." As a member of an advisory committee, I commented that the statement of broad accounting principles reflected what the authors believed should be generally accepted rather than what they are today. The authors must take comfort in noting that some foreign corporations of international scope do apply some of the principles they advocate.[22] While the campaign for change goes on, a summary of conventions and principles observed today would be helpful to many persons who prepare and use financial statements.[23] We seem to reach solutions of our day-to-day problems once we can agree on the facts. As the investment credit debate demonstrates, this is not always easy and where the differences of opinion are great the acceptance of alternative solutions appears necessary.

W. B. Coutts, F.C.A., editor of the Accounting Research Department of The Canadian Chartered Accountant, has kept you well informed by his critical appraisal of the Accounting Principles Board's research studies.[24] Coutts' reviews convey quite well the difficulties in reconciling the differing points of view, first as to what was to be accomplished and, second, as to conclusions on any particular subject.

The program as planned was that the Principles Board would produce studies first of postulates, which are few in number, to make clear the profession's understanding and

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[22] See A. Goudeket, An Application of Replacement Value Therapy, The Journal of Accountancy, July 1960, p. 37.

[23] For a beginning see: W. Barry Coutts, Accounting Research, The Canadian Chartered Accountant, July 1959, p. 52; Paul Grady, The Quest for Accounting Principles, The Journal of Accountancy, May 1962, p. 45.

[24] The Canadian Chartered Accountant, March, August, September, October and November 1962, and more to come, no doubt.

interpretation of what they are and to provide a meaningful foundation for the formulation of principles and development of rules or other guides for the application of principles in specific situations; second, of principles and the preparation of a reasonably condensed statement thereof the results of which should serve as the foundation for the entire body of future pronouncements by the Institute on accounting matters; third, of rules or other guides for the application of principles to specific situations; and, fourth, research. It was recognized at the outset that some rules or guides in specific situations might require decision before agreement could be reached on the basic studies. As we have seen in the debate over the investment credit, part of the difficulty in reaching agreement stems from the conflict between those who urge uniformity and strict comparability as the end to be achieved with all possible speed and those who are more concerned with financial statements which present a true and fair view of the affairs of the company and who would proceed with less haste. The report of the Special Committee on Research Program which contained the recommendation to set up the Accounting Principles Board contains this significant paragraph:

> "The general purpose of the Institute in the field of financial accounting should be to advance the written expression of what constitutes generally accepted accounting principles, for the guidance of its members and of others. This means something more than a survey of existing practice. It means continuing effort to determine appropriate practice and to narrow the areas of difference and inconsistency in practice. In accomplishing this, reliance should be placed on persuasion rather than on compulsion. The Institute, however, can, and it should, take definite steps to lead in the thinking on unsettled and controversial issues."

From our vantage point in the Commission I believe we can say that much progress has been made in the quantity and quality of disclosure of financial information. Changing business conditions continually reveal new areas in which there is little or no established accounting precedent. Our first task at the SEC is to see that adequate over-all financial information is made available to the public investors and to hasten the abandonment of imperfect or unsound methods of financial reporting. As a matter of policy we also urge the adoption of improved methods of reporting and try to assist the profession in the development of better reporting standards. Industry-sponsored conferences such as this one here at Banff contribute substantially to the understanding of this work

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