

Baruch College
The City University of New York
17 Lexington Avenue
New York, NY 10010

February 9, 1981

The Editor
Barron's
22 Cortlandt St.
New York, N.Y. 10007

Dear Sir:

As a long-time friend of Barron's, its editors and Stanley Sporkin I am writing to express my distress on reading your February 2 editorial entitled "Sporkin's Swan Song?"

While I might understand your determination to set forth once again your views regarding the regulatory process, I nonetheless question your vituperative indictment of Mr. Sporkin and reliance on certain facts to support your position.

To begin with you would tar and feather the Securities and Exchange Commission because, over the past half century, skeletons in the closets of several of its members have been exhumed. Surely you would not indict the Office of the American Presidency, Judiciary, the Congress, the Fifth Estate, the legal or accounting professions by a corresponding demonstration of personal failings.

Further, relying on the research of Professor George Stigler you determine that the investor is no more knowledgeable in the present regulatory environment than he was back in the "good old days." To the extent this is true then I despair for the professions of the law, accountancy and security analysis. That Professor Stigler's determinations might not be the last word on the subject might be noted by the refutations with which it has been met in various contexts; and, it might be noted, his writings are not especially unbiased insofar as the regulatory process is concerned.

I turn next to an aspect which you emphasized in your editorial, i.e., the victory wrought by Arthur Young & Co. in resisting an injunctive action by the SEC. As you noted, the firm did obtain a resounding victory in the courts; its conduct in the Geotek audits was found to be entirely "A-OK" when measured by our profession's GAAS (generally accepted auditing standards).

In my writings and lectures on that litigation I have regularly congratulated Arthur Young on its sweet victory; but I then go on to assert that the loser was not the SEC but the accounting profession. Thus, in that case the court presumed such a base level for our auditing standards as to make us hide our heads in shame; if those were, in fact, the standards I challenge the

American Institute of CPAs to include a question in the Auditing segment of the CPA examinations setting forth the factual circumstances involved in the Geotek audit, and to ask whether the auditor's response (i.e., as pursued by AY) was, in fact, in accordance with GAAS.

The courts, in their wisdom, opined that if the SEC expected the auditors to become "whistle blowers" where they discern perverse conduct then it would be presuming that our profession had been "conscripted" under the Securities Laws. This, I respectfully submit, is sheer nonsense. My profession was not conscripted; instead, as the history would disclose, we battled valiantly and successfully to become the "mercenaries" in behalf of the world of third parties, the investing public. The alternative which was thereby rejected (happily so, I submit,) was to develop a governmental audit staff.

Further in this connection, while you keep score on the Commission's failures to bring accounting firms to judgment you appear to ignore its accomplishments. Thus, a February 3 New York Times Op-Ed column by the Chairman of the Financial Accounting Foundation (i.e., the "Godfather" to the Financial Accounting Standards Board) encourages the other learned professions to follow the lead of the accounting profession in its thrust for professionalism—and to institute a system of peer review. In that context he cites the salutary experience of his own firm, one of the Big Eight accounting firms as a consequence of such a process.

He failed to point out that the review to which he thus referred evolved from two SEC mandates, to wit, Accounting Series Release 153 (1974) and 153A (1979), resulting from the firm's alleged audit failures in U.S. Financial and Ampex/Giant Stores respectively.

Turning to your coda, "Dump Sporkin, but don't stop there," I maintain that if Sporkin is dumped in this New Beginning euphoria, then by no means should we stop there. Instead, I urge, that we proceed forthwith to scuttle the Securities and Exchange Commission entirely, and with it the requirement that publicly owned corporations be subjected to the ritualistic process of the independent audit and mandatory disclosure otherwise.

This would put to the test the effectiveness of the Stigler, et al., philosophy; it would return us full circle to the caveat emptor standard of the "good old days." I would, of course, strongly urge that henceforth all corporate disclosures be graced with a skull and bones logo. We will then let history judge whether this would represent a New Beginning or the Beginning of the End.

Sincerely,

Abraham J. Briloff
Emanuel Saxe Distinguished Professor
Of Accountancy