

“The Accountant’s Language –  
The World’s Business”

An address by

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to

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of Ontario

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It is customary for an American at gatherings of this kind to comment on the relations between our two great countries. I want to repeat that comment – not as a routine formality, but as a heartfelt expression of gratitude for the good fortune that has made us neighbors.

I have spent the greatest part of my mature life as a resident of the State of Michigan. Therefore I have lived north of many of my Canadian neighbors who tend to think of Americans as southerners. Some of my most pleasant and thrilling days have been spent in Canada – fishing, hunting and enjoying the gifts of nature so lavishly bestowed on your great land.

As one who has lived side by side with you, as one who feels at home in Canada, it is no mere formality for me to say “Hello, neighbors.”

There are times when that kind of greeting has a special importance. This is one of those times. In a world of tension, split by ideologies and bracing for the business of war, it is not an idle gesture to reach hands across the border and affirm our unity.

Geography has made us neighbors. History has given us a precious tradition of good neighborliness. A common danger gives us a common dedication.

If I did nothing else but rise and say “hello” as one does to friends and neighbors I would have done the most important thing I could do tonight.

But I want to go further than just that. I have before me tonight the best elements of the Canadian accounting profession. You are the bridge between business and those who invest in business. The advertising men and the public relations men provide the local color and the atmosphere. But you are the ones who provide the climax – who tell whether the business made money or lost it.

I am Chairman of a governmental agency that has spent a good deal of effort to bridge the gap between the investor and the management of his company. Through the laws administered by the Securities and Exchange Commission, the United States federal government has recognized the importance of the individual investor and has founded a system which assumes that the best long range stimulus for full investment is full understanding.

You see, then, that the promotion of understanding is a native part of my job. It is a job that never ends. In the early days of the Securities and Exchange Commission it was misunderstood by investors as well as business managers. Investors believed that the government had become a guarantor of safe investments and that the Securities and Exchange Commission stood ready to repair their losses and save them from their own improvidence.

That is not what the Commission does. Patiently, throughout the years, we have been teaching the American investor that nothing in federal law absolves him from the consequence of his own folly and that nothing is a substitute for his own investment decisions. Under the basic laws entrusted to the Securities and Exchange Commission our job is simply to see that the investor is provided with the facts he needs in order to make intelligent investment decisions and in order to participate intelligently in the affairs of his company.

Businessmen who had no experience with the Securities and Exchange Commission and others who have never reconciled themselves to this philosophy of understanding had similar misapprehensions about the Commission. It was rumored to be one of the big bad boys of the early New Deal, anti-capitalist, anti-free-enterprise, anti-business – anti practically everything.

Those misimpressions have, inevitably, been worn down in the current of actual experience. Businessmen who deal with us have discovered that the Commission looks beyond the day to day administration of its job to the ultimate purpose of these laws. That purpose is to strengthen the system of free enterprise with underpinnings of honesty and truth.

The first law entrusted to the Commission, and the law which is still one of the keystones of the federal system of securities laws, is the Securities Act of 1933. Among other things that law provides that investors in newly distributed issues of securities shall be furnished with basic information about the issuing company.

It is as important for the investor to know what he is buying as it is to the housewife to know the ingredients of the food she puts on the table.

Laws regulating the branding of foods and drugs have been on our books since the beginning of the century. The Securities Act is only 17 years old. Yet I am proud that in this short time many business men have come to accept this principle of disclosure as a necessary and desirable thing.

I don't pretend that the Commission is perfect. We are far from it. And the business men who are in agreement with us about the basic principles can still point out many ways in which the administration of those principles should be improved.

We work at improvement – constantly. But the important thing is the wide and basic area of agreement that exists between the Commission and business generally. We agree on the principle of disclosure and we agree that the method of carrying out that principle should help and not hinder legitimate business. To us, at the Commission, it makes no more sense to stop a financing because minor details of information are lacking than it would make sense to stop the baking and sale of bread because the yeast content wasn't described down to the last decimal point.

In fact we, and business, have been working together steadily, throughout the years, to cut out minor detail, to get the main story told in simple form so that the burdens of disclosure can be eased and the usefulness of disclosure improved, at the same time.

Every year billions of dollars of securities are registered and sold pursuant to this law. Some of those securities are issued by corporations doing business outside of the United States – corporations which are, from our point of view – foreign corporations. In recent years Canadian securities registered under that Act have amounted to almost the whole of foreign securities registered with us. For example, in the year ending June 30, 1950, ninety-two per cent of the foreign securities registered under the United States Securities Act originated from Canada.

For that reason Canadians have a special interest in what the Securities and Exchange Commission is, and what it does. On our side, we have a special interest in promoting among you the fullest possible understanding of the Commission.

That understanding can be put into a few simple truths: the health of free enterprise economy depends on a free flow of investment from savings into enterprise. Ignorance, misrepresentation, inability to take a calculated investment risk, losses suffered through misunderstanding, are all barriers to the free flow of investment. The Commission's job is to break those barriers down.

It is not the Commission's job to baby the investor. Simple disclosure of the material facts is not paternalistic or socialistic. It is rooted in our legal traditions; it is consistent with the best traditions of honest business; it is in fact the best vindication of free enterprise in the face of communist and socialist propaganda.

In actual practice a law is what the administrator of that law makes it. The best-intentioned law, the most liberal law can become a strait-jacket if it is ruthlessly and ignorantly administered. We try (and we think our efforts have been successful) to bring a common-sense, practical, and understanding attitude to our job. We do not measure our success by the number of deals we kill but by the help we can give to both business and investors to reach a deal on the basis of reasonable disclosure and understanding.

The plain fact is that we don't kill deals. The most stringent thing we can do to a public financing which is not accompanied by the appropriate disclosure is to issue a formal order which prevents sales. But these orders are few and far between. In the entire history of the Commission about 64 billion dollars of securities have been registered with us for public offering. That was done in a total of about 8,540 statements. We have issued formal orders to prevent sales with respect to 182 statements – representing a microscopic fraction of the total amount of securities offered.

It is typical of the history of the Commission that most of these formal stop-orders were issued in the early days of the Securities Act. The law was new. It was as new to those who administered it as it was to those who had to comply with it. On both sides people had to learn how to live with the law. Many old-fashioned high-binders decided

to give the law a fling to see if they could dance the same waltz with the law that they had danced with their consciences.

That didn't work. One by one these early orders stopping sales chalked up the score as the high-binders bowed out – some gracefully and others on their way to jail.

Times have changed. The big stick is still in the corner, ready to be used when it is needed. But the predominant problems today are not problems of enforcement. They are, rather, problems of adjustment. We have learned how to gear our clearance mechanism into the tempo necessary to facilitate financing. Industry has learned how to prepare statements that need a minimum of tinkering to get cleared. Our staff works like beavers to review statements on the double quick so that a company planning to finance can adjust its disclosures and hit the market it has planned to hit. Differences are ironed out. And only the most hopeless and unredeemable statements – which, as I said, are few and far between – become the subject of formal orders. The rest are readily cleared.

But suppose that we do issue a formal order which stops sales of a security. Under the law and under our consistent practice we tell the company just what it has to do to make the statement acceptable. If the company disagrees with us it can ask the courts to reverse us. If we are right the deal can go through after the statement is corrected.

Let me emphasize that thought. Under the Securities Act the investment merit of a security is none of our business at the S.E.C. Whether a security is a good, bad, or indifferent investment it can be sold as long as the appropriate disclosures are made. Investment decisions are the business of the investor and not of the S.E.C.

I came from the ranks of investment banking. As a banker my foremost thought was to provide my clients with securities at a price commensurate with their quality; and it was my constant concern to see to it that a security I sold was proper for the needs and financial condition of my client. As a regulator I have cleared many statements regarding securities which I wouldn't touch with a ten-foot pole. But I have silently thanked the Lord, over and over again, that it was none of my business, as a regulator, to censor the investment process.

We, at the Commission, realize that no one is all-wise; no one is an oracle. Today's bad risk may be tomorrow's sure thing. A growing healthy economy needs venture capital; a man with an idea or an assayed ore sample should have his call on capital just as readily as the seasoned business has it. It is not my job in the S.E.C. to tell people what they can or should buy. It is to see to it that they are told, in the simplest terms, the facts about what they are being offered.

I don't have to remind accountants that financial statements are the very heart of good disclosure. I think that the Canadian accounting profession has grounds for great pride in the fact that so many Canadian registration statements filed with the Securities and Exchange Commission clear with little or no difficulty.

That is an attribute, not only of the integrity of the Canadian accountant, but also of the high degree of similarity between American and Canadian accounting methods, practices and principles. That similarity is a bond between us as firm as the bonds of geography, history, and our common language.

While accountants on each side of the border share in the same basic accounting traditions that is not the sole cause of the similarity in present practices. Recently I glanced through the pages of some Canadian accounting journals. I was struck by the number of articles and contributions from American sources. To see whether there was any reciprocity in this phenomenon I picked up an American journal. I found Canadian journals and Canadian authorities cited in that journal.

It became clear to me that our mutually developing language of finance is not merely an accident of tradition. It is a living thing, nurtured by a healthy and vital interchange of ideas.

That little lesson gave me a thrill. It brought to mind a broader lesson and one that is, I think, important enough to talk over with you tonight.

Canada and the United States stand as symbols in a torn world. In every way – through the interflow of goods, ideas, services, and just plain people we are proving that national integrity and international intercourse are not at all inconsistent. Canadians want Canada to remain Canada; Americans want the United States to keep its national flavor. But neither of us has tried to do it by building a barrier between us. Day by day we are proving that a boundary need not be a wall, shutting off understanding, cultural interchange and cooperative effort.

The world needs to learn that lesson and needs to learn it badly. We shall never sleep free of the fear of war until the world has learned that lesson. Boundaries will continue to be fortresses unless we open, on a world-wide basis, the doors of trade, commerce and investment.

It will be difficult to do that without a common language of accounting. As hard as we have worked, in the United States alone, to reduce to a minimum variations in accounting convention we have not had complete success. To a great extent, balance sheets and income statements using the same words say the same things. But it is still possible to pick up two statements that do not give you comparable pictures of assets or income because the accountants have used different methods.

On a national scale these variations are troublesome enough. But on an international scale the difficulties are many times compounded. Variations in language variations in accounting methods in the significance and application of local law all play so large a part that often only a highly trained expert can dare to translate a foreign financial statement.

That situation is not, it seems to me, inevitable. All my life I have been interested in music. I have played it, sung it, written it and arranged it. If it had not been for a diversity of talents – some of which were more lucrative than music – I would probably have become a professional musician. I compensate in some measure by supporting musical endeavor wherever and whenever I can.

This bit of autobiography may sound irrelevant to the main subject of my remarks. In fact it isn't. Whether the composer of a piece of music is a Hungarian, a Frenchman, or a Norwegian. I can read his music and I can understand it. Truly, music is a universal language. That simple fact has made music one of the great carriers of cultural understanding and one of the great sources of cultural richness.

An international language of accounting could help to do the same for our economic life. It is a hope as old as the prophets that the nations of the earth shall live at peace. Today peace means trade, commerce and – in many places – primarily a flow of investment. And today we need that flow of investment as a matter of vital contemporary policy. To Americans, and to peace-loving people everywhere, the rebuilding of Western Europe and the development of underdeveloped territories is a measure of defense as important as the deploying of troops.

Today that aid is a tax sliced out of earned dollars. It is so because government has had to take on the job. But that cannot and should not go on forever. In a world where the free movement of capital is facilitated capital will move where there is a reasonable chance of profit. In many places government grants and doles are doing what private invested capital might be doing.

One way to help private capital to resume its normal function is to internationalize the language of accounting. That does not require the unification of international currencies; it does not require a single change in business methods or in business practices in any country. Hungarians write characteristically Hungarian music even though they use the same notes and clefs as are used by Italians. The job of a common language of accounting is not to rewrite the story of finance. It is to tell it in a universally understandable way.

Every development in international relations clears the way for other developments. True, it would be hopeless and silly to try to promote a common financial language for countries that have no common flow of investments. But it is just as true that the lack of a common language hinders the development of a free movement of investments.

For that reason, any project to internationalize the language of finance must remain a project of hope and goodwill. But that does not brand it as a meaningless or fruitless project. There is, in the United States and throughout the world, a vigorous appetite for new areas of profitable investment. It is the job of disclosure, and in particular the job of the accountant, to lay the menu on the table. If the menu, handed to

an American, is written in Greek, he is likely to leave the restaurant and walk to the corner cafeteria where he can safely order a roast beef sandwich and a cup of coffee.

I could think of no better time or place and no more appropriate circumstance for the voicing of this hope than here, now, and to you. What Canada and the United States have done the rest of the nations can do.

We need only to show them how.

As you might expect, American accountants and the United States Securities and Exchange Commission, have maintained extremely close relationships. It is inevitable that those relations should exist, for the Commission is the channel through which much of the accountants' work flows on its way to the public.

Throughout that relation the Commission has sedulously avoided usurping the role of the accounting profession in the development and evolution of sound accounting. While we have extraordinarily broad powers to prescribe accounting methods to be followed in preparing documents officially filed with us, we have never used that power to cut new paths in the field. If I may analogize to currency, we have not – so to speak – minted our own money. In the S.E.C., generally accepted accounting principles are still coin of the realm.

There is a reason for that. We have witnessed in recent years a tremendous progress in the profession towards sounder, more objective and more uniform accounting. The accounting profession, in the United States and – from what I have seen – in Canada, is a vital and dynamic one. It is conscious as it never has been before of its public responsibilities. As long as it stays that way I am perfectly content to continue accepting its currency as coin of the realm.

It is a matter of regret to me that Canadian accountants have not been as close to us as they should be. Let me here and now extend an invitation to you. When you are in or near Washington drop in to see us. We want you to see how our shop runs. There is a lot that we can learn from each one of you.

You have been gracious hosts. You have been a kind audience. You have made this visit something I shall long remember.

I thank you you – sincerely and from the bottom of my heart.

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