

Outline of Remarks

to

Peat, Marwick & Mitchell

SEC Partners

December 7, 1983

I. Shopping for Auditors

A. The General Problem

1. Long-standing
2. Form 8-K requirement -- is it adequate?

B. Southeastern Savings and Loan Company  
Scottish Savings and Loan Association

1. GNMA's hedged by selling Treasury bond futures
2. Interest rate drop
3. Closed out both positions with large losses on the Treasury bond futures
4. Purchased new GNMA's and hedged them by selling GNMA futures
5. Deferred recognition of losses by adding to cost basis of new GNMA's
6. Extensive discussions with auditors;  
issue taken to national level of firms;  
discharge auditors for non-approval;  
selected new auditors: A. M. Pullen & Co.

II. Focus on Financial Institutions

- A. Scottish (Deloitte Haskins & Sells) and Southeastern (Price Waterhouse)
- B. Security America (Coopers & Lybrand)
- C. Aetna (Peat, Marwick, Mitchell & Co.)
- D. Bank of America (Ernst & Whinney)
- E. FCA (Arthur Andersen)
- F. Fidelity Financial (Peat, Marwick, Mitchell & Co.)  
- 21(a) Report on Repo's
- G. Attitude (of thrifts) toward SEC as a "secondary regulator"
- H. Transactions without substance
- I. More coming

III. Fox & Co. Case

- A. General reaction
- B. Comments on the Review Committee imposed on Fox & Company
- C. Reaction to injunction as opposed to 2(e)
- D. Reaction to firm being named

IV. General Attitude Toward Naming the Firm vs. Individual

- A. Fox & Company; Touche Ross
- B. Security America
- C. How does profession distinguish between naming firm vs. individual? What do you think the test is, and should be?
- D. Perhaps more willingness at Commission level to consider naming the firm

V. Production of Documents and Practice of Redaction

- A. Redacted documents frequently submitted in response to Commission administrative subpoenas
- B. Statutory language - "Commission deems relevant or material to the inquiry."
- C. Resolution short of subpoena enforcement
  - 1. On-site review by staff
  - 2. Other approaches
- D. Potentially significant subpoena enforcement case very near

VI. Foreign Auditors and Affiliates

- A. Denial of access to workpapers
- B. 2(e) Proceeding as Enforcement Mechanism
  - 1. Prohibit practice before Commission
  - 2. Prohibit other auditors from relying on their opinion
- C. A rule proposal requiring consent to produce workpapers

VII. General Observations

- A. Openness of staff and Commission
- B. Encourage more dialogue and accountant comment
- C. Don't sit at your desk and guess