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AMERICAN INSTITUTE OF ACCOUNTANTS

NEGOTIATIONS REGARDING
"ONE NATIONAL ORGANIZATION"

FEBRUARY 10, 1936

135 Cedar St., New York

American Institute of Accountants

135 CEDAR ST., NEW YORK

Executive Committee

To all Certified Public Accountants:

The members of the American Institute of Accountants have instructed their executive committee to publish to the profession a statement of what the Institute has done about the proposal that the American Society of Certified Public Accountants be merged with the Institute, to form one national organization.

As the negotiations between the two organizations have progressed, reports have been made in the monthly *Bulletin* of the Institute for September, November, and December, 1935, and January, 1936. While this letter does not repeat all the details it does attempt to state clearly and fully the really important facts.

HISTORY

The American Institute of Accountants was formed in 1916, as successor to the American Association of Public Accountants, founded in 1887. The Association had been something in the nature of a federation of state societies, its members, for the most part, being admitted by virtue of membership in a state society. In this form of organization there were grave disadvantages, among them the following:

1. Potential domination of the national association by the larger state societies.
2. Lack of control over professional conduct of members.
3. Loose and decentralized government, making it difficult for the national association to function effectively in emergencies.

In 1916 the C. P. A. certificate in many states was not strong—in others there were no C. P. A. laws. It was felt that existence of a national organization maintaining admission stand-

ards uniform throughout the country, and requiring direct, individual application for admission, would raise the standard of the profession and of the C. P. A. certificate more rapidly than otherwise might be.

Accordingly, the old association gave way to the American Institute of Accountants, whose structure was designed to make the organization more serviceable to the profession.

In 1921 a group of accountants, many of them members of the Institute, formed the American Society of Certified Public Accountants. From the published announcements of that time it appears that the chief purpose in formation of a second national organization was to protect and foster the C. P. A. certificate, though on the part of the Institute's leaders there was, of course, a difference of opinion as to the necessity of a new organization to accomplish that purpose.

The new Society also stressed the importance of the state societies and sought close relationships with them. The Institute likewise continued its efforts to maintain friendly and mutually helpful relations with the state societies.

There were, as might naturally be assumed, various additional motives underlying the formation of the American Society—dissatisfaction with certain policies or acts of the Institute of that particular period, disagreement with the theories responsible for reorganization of the American Association, and perhaps others.

THE PROPOSAL FOR MERGER

As early as 1924, three years after formation of the Society, there was a feeling that unnecessary duplication of effort, expense and confusion were resulting from the existence of two national organizations whose programs were similar in most respects.

In that year committees of the Institute and the Society met and discussed the possibility of uniting the two organizations, but without success. In the years immediately following there were indications that many certified public accountants believed one national organization would serve the profession better than two. In 1932 the New York State Society called

on all the other state societies, and on the two national organizations, to do something about it. Many of the state societies adopted resolutions favoring one national organization: In 1933 both the Institute and the Society appointed special committees to consider the matter.

The Institute's committee resolved to do its job so thoroughly that the possibility or impossibility of uniting the two national organizations could be finally determined—if a merger were possible, let it be found out how the thing could be done; if not, let the profession be freed from the fruitless recrimination which discussion of the subject seemed always to arouse.

The Institute's special committee spent nearly a year in study of the subject; it analyzed the memberships of the two organizations; it compared their financial strength, their by-laws, their methods of procedure, and their accomplishments. It sought guidance in the proceedings of societies in other professions; it gave particular thought to the criticisms which in past years had been leveled at both the Institute and the Society.

The Institute's committee, in the course of its preliminary study, addressed itself particularly to the questions whether either or both of the existing associations adequately represented the profession before the public, and were properly organized and equipped to carry out the work which the profession required.

It was discovered that less than one half of all the certified public accountants in the country were members of state societies, and that only about a quarter of all the certified public accountants were members of either the American Institute or the American Society.

It appeared that the chief criticism of the Institute was the fact that its membership was not confined to certified public accountants, which was taken in some quarters as an indication that the organization did not wholeheartedly support the C. P. A. certificate, despite the fact that only six per cent. of the Institute's members and associates did not possess C. P. A. certificates, and that the Institute had rendered exceedingly valuable service, through its uniform C. P. A. examinations (adopted in about thirty-five states and territories) and through its legislative activities, in raising the standard of the C. P. A. certificate.

It was the conclusion of the Institute's committee that one organization could represent the profession before the public and the government better than two; that the Institute was adequately equipped to serve the profession; that its work would be more effective, and its influence wider, if its membership were larger; that its membership would probably increase and that it would be more strongly supported by the profession if all doubt of the Institute's allegiance to the certified public accountant certificate were removed.

NEGOTIATIONS

Meanwhile, several invitations had been dispatched by the Institute's committee to the American Society's committee to meet and discuss the subject of possible unification.

The special committees of the two organizations met first in the fall of 1934. At the initial meeting they found themselves in agreement on the following points:

1. That a single national organization to represent accredited members of the profession was desirable.
2. That, if such an organization existed, membership should be selective, not automatic, and that admission should be by voluntary, individual application.
3. Possession of a certified public accountant certificate, subject to character, waiver and similar consideration, should be considered as basic evidence of eligibility for membership—that is, the organization should be designed to include all reputable and qualified certified public accountants.
4. Membership in a state society should not be required as prerequisite to admission to the national organization.
5. All members in good standing in both existing organizations would have to be admitted to amalgamated group.
6. Some provision should be made for close working cooperation between state societies and national organization, possibly through creation of an advisory council of state society presidents to meet on occasion with the governing body of the national group.

The committees seemed not so far apart in their thinking as might have been expected—accomplishment of these broad objectives seemed not at all impossible. Accordingly, sub-commit-

tees were appointed to work out a specific plan for expression of the basic principles on which agreement had been reached.

The first great question was whether a new organization might be fashioned out of the memberships of the two existing ones. This was soon perceived to be impossible. Counsel for the Institute indicated that an adverse vote of one member might prevent surrender to a new corporation of the Institute's trust funds, amounting to a quarter of a million dollars, and that there would be serious difficulties in the way of transferring other property, including the building owned by the Institute, and its library of some 14,000 volumes. In addition, a great many members balked at any suggestion of liquidating the Institute. They argued that it was the oldest and largest national organization of professional accountants in this country; that its contributions to the profession and its record of accomplishment were second to none; that its high standards had been largely responsible for the rapid elevation of the profession; that its reputation and personnel were of the finest, and that to abandon a tried and successful organization for something new and experimental would be wholly illogical.

The sub-committee representing the American Society recognized these difficulties and expressed the opinion that a merger of the Institute and the Society might be accomplished without altering the corporate structure of the Institute, provided certain amendments were made in its by-laws to accomplish changes which were felt to be necessary.

It was thought that if assurance could be given that the Institute would carry on the two objectives which had been among the major purposes of the American Society—wholehearted support of the C. P. A. certificate, including restriction of membership to certified public accountants and close co-operation with the state societies—the logical means of merger would be to utilize the Institute, with all its facilities for service, as the continuing organization.

MERGER PLAN

On this basis, then, the sub-committees, proceeded to work out the following plan, which was ultimately approved as a fair basis for a merger by the American Institute of Accountants assembled in annual meeting at Boston, October 15, 1935:

"It is proposed to merge the membership of the American Institute of Accountants, hereinafter called the 'Institute,' and the membership of the American Society of Certified Public Accountants, hereinafter called the 'Society,' on the following basis:

1. The Institute shall continue as the active national organization.
2. The Institute shall be furnished with a list of the members of the Society in good standing as of August 31, 1935, certified by the president and secretary of the Society. Each of the members of the Society whose name appears on such certified list shall, upon subscribing to the by-laws and rules of professional conduct of the Institute, become a member or an associate of the Institute, as he elects, without examination or initiation fee.
3. Amendments to the by-laws of the Institute shall be adopted as follows:
 - (a) To permit the admission of members of the Society as provided in paragraph 2.
 - (b) To require that after January 1, 1936, an applicant for membership or associateship in the Institute must hold a valid and unrevoked certified public accountant certificate issued by the legally constituted authorities of a state or territory of the United States of America, provided, however, that this by-law shall not in any way affect the membership rights of any present members of the Institute who do not hold such certificates.
 - (c) To reduce the experience requirement for associates to two years.
 - (d) To provide for the creation of an advisory council by the adoption of a new article as follows:

The Institute shall invite presidents of the recognized societies of certified public accountants in the several states and territories of the United States of America to form an advisory council of society presidents.

The advisory council shall at all times consist of the state society presidents then holding office in their respective societies, but if a member of the advisory council is unable to attend a meeting of the advisory council a member of his society may

be designated by that society to represent him at the meeting.

At least once in each year the Institute shall call a meeting of the advisory council which shall choose its own chairman and secretary. A majority of the members of the advisory council shall constitute a quorum.

The advisory council shall consider matters submitted to it from time to time by the council of the Institute and in its discretion may initiate and make recommendations to the council of the Institute. A full report of the transactions of the advisory council shall be submitted to the membership of the Institute at the same time as committee reports.

4. Contemporaneously with the certification of members provided in paragraph 2 hereof, the Society shall, by sufficient instruments, transfer to the Institute all of the property of the Society, real and personal and of every description. Hereafter the Society shall continue in existence as a corporation or shall be dissolved, as the Institute may elect. In either event, the Society shall be inactive and shall take such steps as in the judgment of counsel for the Institute are necessary in order to carry out the spirit of this plan of merger in leaving the Institute as the active survivor of the two organizations.

5. This plan shall be put into operation as follows:

The members of the Society's committee who have subscribed to this plan will attempt to secure the recommendation of a majority of the directors of the Society or not less than 25 members of the Society to the submission of an amendment to the constitution and by-laws of the Society, in accordance with article 12 of the constitution of the Society. Such amendment shall provide that the officers of the Society are authorized and directed to put this plan into operation and that all provisions of the constitution and by-laws of the Society inconsistent therewith are repealed. If such submission has been made prior to the annual meeting of the Institute to be held October 15 to 17, 1935, the members of the committee of the In-

stitute who have subscribed to this plan will submit to the annual meeting the amendments to the by-laws proposed in this plan, in accordance with article XV of the by-laws of the Institute. If this plan is finally approved by the Society and the Institute by the adoption of the amendment proposed to the constitution and by-laws of the Society by two-thirds of the state representatives, in accordance with article 12 of the constitution of the Society, and by the approval of the proposed amendments to the by-laws of the Institute by two-thirds vote of the members present at the meeting and by a majority of all of the members in accordance with article XV of the by-laws, then the plan shall be considered as constituting a contract between the Institute and the Society. Thereafter the steps outlined in paragraphs 2 and 4 of the plan shall be taken as quickly as possible.

6. Two matters have been considered which the undersigned believe should be left for the consideration and action of the united membership after the merger, viz:

(a) Whether or not the name of the Institute should be changed to include in it the words 'Certified Public' so as to read, say, 'American Institute of Certified Public Accountants.'

(b) Whether or not the election of members of the council of the Institute should be on a regional basis instead of at large as at present.

The above plan is approved by the undersigned representing the special committee on co-operation with other organizations of the Institute and the special committee on one national organization of the Society and will be reported by the undersigned as outlined above.

For American Institute of Accountants:

FREDERICK H. HURDMAN, *Chairman*
R. O. BERGER,
JOHN F. FORBES,
JAMES J. HASTINGS,
WALTER A. STAUB.

Special committee on co-operation with other organizations.

For American Society of Certified Public
Accountants:

JOHN T. MADDEN, *Chairman*

JAMES F. HUGHES,

ERIC L. KOHLER.

*Special committee on one national or-
ganization.*

September 21, 1935."

This plan covered points raised by the presidents of state societies of certified public accountants, who had met in Atlantic City in August to consider the subject. Its basic features had been approved by the Institute's executive committee as long before as April 18, 1935. It was signed by all the five members of the Institute's special committee.

The plan had been accepted as satisfactory by the sub-committee of the American Society: two of the five members of the full special committee of the American Society, however, refused to sign it. In preliminary outline the plan had been referred to the directors of the American Society in April, 1935, with a request for an expression, which was met with a broad statement neither approving nor disapproving the specific features of the plan, in whole or in part.

The finished plan, as quoted above, was submitted to the directors of the Society before its annual meeting at Kansas City early in October. No specific endorsement of or objection to this plan was ever received by the Institute. Instead, the Society submitted a resolution adopted at its annual meeting, outlining the following points, which were regarded as essential to a merger, and suggesting a referendum of both memberships to determine their attitude on the proposals:

- "1. The name of the new organization to include the words 'Certified Public Accountants.'
- "2. All members and associates of the two existing organizations at the date of acceptance of the agreement to be admitted as members of the new organization in a single class, the qualifications of future members to be the possession of a C. P. A. certificate granted by the states.
- "3. The governing body of the new organization to be nominated and elected by and from geographical districts by mail ballot of members resident in the district.

"4. An advisory committee to be created, composed of the presidents of state societies, or other representative in the event of the inability of such president to serve. Such committee to meet at least once each year for the purpose of presenting suggestions to the governing body and to consider such matters as may be submitted to it by the governing body.

"The following point, while not thought to be essential to the agreement, should be considered by the organization after the consolidation:

"Dues to be fixed at as small an amount as may be found consistent."

The Institute's annual meeting occurred about two weeks later. With all this information before them, the members of the Institute approved the plan worked out by the sub-committees representing both organizations (quoted in full beginning page 8) as a fair basis for a merger, and proceeded to put it into effect, as far as it was then possible, by approving amendments to the by-laws providing:

1. That after January 1, 1936, every applicant for admission to the Institute shall be required to possess a certified public accountant certificate.
2. That an advisory council of state society presidents be created in order to permit close co-operation between the Institute and the state societies.
3. That the experience requirement for admission as an associate of the Institute be reduced from three years to two years.

These amendments were subsequently approved by a majority of all the members of the Institute by mail ballot and were declared effective.

The annual meeting of the Institute then adjourned to reconvene January 6, 1936, in order to give the special committee an opportunity to consider further the remaining questions, raised in the American Society's resolution, which had not been disposed of by amendments.

On December 6th the Institute's special committee, after conference and discussion with the sub-committee of the Society's special committee and the Institute's executive committee, published a report from which the following are extracts:

"REGIONAL REPRESENTATION

"A statistical study of the council of the American Institute of Accountants since the organization of that body in 1916 shows that the council has always been geographically representative of the entire membership. A letter from last year's chairman of the committee on nominations, published in *The Journal of Accountancy* for December, 1935, indicates the care with which the committee on nominations has made its recommendations to the membership.

"Article VII, Section 1(a), of the by-laws prohibits the election of more than six members of council from any one state, with the result that the state of New York, which contains nearly twenty-five per cent. of the entire membership, has had less proportionate representation on the council than nearly all the other states. This provision in itself obviously assures fair regional representation.

"The American Society has recommended that members of the council be elected from regional districts, by mail ballot, by members resident in the respective districts. Your special committee does not approve this recommendation because it believes that in a large professional society, national in scope, it is desirable that the governing body be thoroughly representative of the profession. It should be composed of some of the acknowledged leaders of the profession, of some younger men who give promise of attaining leadership, and of representatives of all types and sizes of accounting firms as well as all parts of the country. No method of electing the council without the guidance of a nominating committee can assure these desirable results.

"Regional election by members resident in the several districts might conceivably result in the election of too many members from a single firm, for example, or too many members all about the same age, or whose practice was of about the same size and character, with the result that the governing body would not be truly representative.

"It seems to your special committee that the best results can be obtained only by election of a nominating committee which bears the very definite and heavy responsibility of making selections satisfactory to the membership as a whole, not merely to geographically isolated portions of the membership.

"In the event that the recommendations of the nominating committee are not satisfactory to the membership there is ample provision in the by-laws of the Institute for the submission of alternative nominations by small groups

of members in advance of the annual meeting or by individuals from the floor of the annual meeting.

"Your committee does recognize, however, that while the council of the Institute has always been geographically representative there is no provision in the by-laws which assures that the individuals recommended for election will be those whom the members in the states concerned would regard as satisfactory representatives of those states on the council of the Institute.

"Your committee recommends, therefore, that the by-laws be amended so as to make mandatory a procedure which many committees on nominations have followed informally to some extent, i. e., that before the nominating committee makes its recommendations all the members of the Institute in the states in which the election of council members is to be recommended be given an opportunity to submit their suggestions in writing to the committee on nominations. Your committee proposes, therefore, that at the adjourned annual meeting of the Institute on January 6th the following amendment to Article XI, Section 1 (a), of the by-laws be approved:

"Add to Article XI, Section 1(a), the following paragraph:

'Before making its nominations the committee on nominations shall send, to all the members of the Institute in those states from which, in the opinion of the committee, members should be elected to the council in that year, a questionnaire requesting the submission of names of members resident in the state concerned, who are eligible for election to the council. Nominees for the council shall be selected by the committee on nominations from among the names submitted in response to this request by members of the Institute in the states entitled to representation.'

"In the opinion of your committee adoption of this amendment would preserve all the desirable features of the Institute's present method of nomination and election of its governing body, and at the same time would provide all members of the Institute with an opportunity to participate in the selection of council members from the states in which the respective members reside.

"CHANGE OF NAME

"Your committee believes that the change of name of the American Institute of Accountants to 'American Institute of Certified Public Accountants' or 'Institute of Certified Public Accountants' would involve no question of fundamental importance.

"All the members of your committee personally prefer the present name

1. Because it is short
2. Because it is generic in nature (as are 'American Bar Association' and 'American Medical Association')
3. Because the name has acquired considerable prestige.

"However, your committee recognizes the fact that there is a difference of opinion on this question and it may be that many members of the Institute would be in favor of changing its name. Eighteen years have elapsed since the membership has had occasion to express its opinion as to the propriety of the present name of the organization, and the progress of the profession and the changes which have taken place since that time may have raised new questions which should be given consideration in judging the advantages of the present name or another one. The fact that the Institute has now amended its by-laws so as to admit in the future none but certified public accountants is also a factor to be taken into account.

"Your committee believes, therefore, that the membership should now be given an opportunity to express its opinion as to the desirability or undesirability of a change in name. Accordingly, your committee has obtained the permission of the executive committee to send to the membership with this report a questionnaire which may make it possible to obtain an expression of opinion on this matter.

"ADMISSION OF MEMBERS OF AMERICAN SOCIETY

"The American Society's special committee on one national organization has agreed to report to its executive committee, or board of directors, the action of your special committee and the recommendations contained in this report. If the members of the Institute at the adjourned meeting on January 6th approve the recommendations in this report, and if the accredited officers of the American Society give satisfactory assurance that the Society will thereupon proceed to put into effect the appropriate provisions of the merger plan, dated September 21, 1935, and approved by the committees representing the two organizations, it may be possible at the adjourned meeting of the Institute on January 6th to propose an amendment to the by-laws providing for admission to the Institute of members of the Society under the conditions outlined in the merger plan of September 21st. . . ."

A copy of this report was sent to the Society with a request for an expression of opinion prior to reconvening of the Institute's annual meeting at Washington, January 6th.

When that meeting was called to order no word had been received from the Society. Spokesmen for the Society who were present at the meeting offered no official statement as to whether or not the Society would approve the plan of merger as then outlined, but intimated that the proposed amendment concerning nomination of council members did not go far enough to meet their wishes.

The Institute, in meeting assembled, then accepted the report of its special committee dated December 6th and approved, with slight changes, the recommended amendment to the by-laws referring to nomination of council members (which subsequently has been ratified by mail ballot and declared effective). Having received a report that a majority of the members of the Institute had replied to the question regarding change of name, of whom 667 had voted against it and 383 in favor, the meeting took no action on this point. Having no indication that the Society was agreeable to the plan of merger as a whole, the meeting of course took no action looking to admission of members of the Society.

The chairman of the Institute's special committee, saying that his committee had completed consideration of the subject before it and could do no more, requested that his committee be discharged, and it was discharged.

Since the January 6th meeting the Institute has received no official word from the Society on this subject. If such word is received it will be considered by the executive committee.

CONCLUSION

To sum up, the Institute has so changed its by-laws that today

1. No one but a certified public accountant may be admitted (there are at present only 132 non-certified public accountants in the organization, out of a total membership of 2,492).
2. Direct co-operation between the Institute and the state societies is provided for through the advisory council of state society presidents, which held its organization meeting and elected officers on January 6th. (It is of interest

to note that the provision for creation of an advisory council of state society presidents goes further in the direction of formal and continuous co-operation between state and national organizations than has been possible since reorganization of the American Association of Public Accountants in 1916.)

3. Every member of the Institute is to be given a voice in the nomination of council members from his state.
4. A certified public accountant with two years' public accounting experience may be admitted as an associate; with five years' experience, as a member.

A majority of the members of the Institute has endorsed everything that has been done. Scores of letters have been received, however, indicating that at least a very large part of the membership will support no concessions, as far as standards are concerned, nor fundamental changes in the Institute's structure for the purpose of bringing about a merger with the Society. The executive committee feels that the Institute has gone as far in this direction as it can go.

At its meeting January 6th, the advisory council of presidents of state societies of certified public accountants adopted the following resolution:

"RESOLVED, that it is the opinion of the advisory council of state society presidents of the American Institute of Accountants that the special committee on co-operation with other organizations has labored diligently and well in the interest of bringing about a merger of the two national accountancy organizations for the purpose of developing a strong and united organization;

"That the efforts of said committee on co-operation merit the encouragement and praise of the advisory council; and

"That it is the sense of this council that the Institute continue its negotiations with the American Society to the end that a merger may be effected."

The research, discussion and expressions of opinion related to the subject with which this letter deals have convinced the executive committee of the Institute that the profession desires and needs a strong national organization with a wholly representative membership. This means that the membership should be considerably larger than that of either of the existing organizations.

At the same time it is believed that the national organization should maintain a reasonable standard sufficient to insure that its members will be competent, reputable and ethical practitioners of public accounting. The present standards of the Institute can not be regarded as unreasonably high. Generally speaking, any certified public accountant in public practice who has passed a satisfactory written examination and has had five years' public accounting experience may become a member, or with two years' experience may become an associate, without further examination. In cases where there is doubt that the applicant meets the standards, oral examinations may be required.

The changes that have been made in the Institute's by-laws, we believe, meet the desires of the majority of the certified public accountants of the country, as far as fundamentals are concerned. In our opinion the Institute is even better equipped than in the past to represent the profession before the public at large and to render those services which the profession requires of a national organization.

Accordingly, it is believed that every member of a state society of certified public accountants should be encouraged to apply for membership. With this in mind, the council has authorized us to extend an invitation to all members of state societies in good standing, who are eligible, to apply for membership or associateship in the Institute, and all entrance fees will be waived in such cases if application is made before September 1, 1936. The \$50 initiation fee is being refunded to all applicants, but the application fee of \$25 will be required of applicants who are not members of state societies.

Further information and application forms may be obtained from the secretary of the Institute.

One of the purposes of the American Institute of Accountants, as stated in its by-laws, is to unite the accountancy profession of the United States. The Institute has made, and is making, a sincere effort to carry out the spirit of this provision. We now earnestly request the co-operation of certified public accountants throughout the country in accomplishment of this

purpose, which will result in enlarged benefits to our common profession.

With the additional personnel, goodwill and income which would result from a great increase in the membership of the Institute, new services of considerable value could be undertaken and services now maintained could be greatly enhanced. A research department to provide members with technical information might be established, co-ordination in defense against legislative attacks could be effected, ethical standards throughout the country might be improved, public-relations work could be greatly increased, and the influence of accountancy as a whole could be much more effectively brought to bear on the problems of the nation.

Yours truly,

ROBERT H. MONTGOMERY, *President*

ARTHUR W. TELLER, *Treasurer*

P. W. R. GLOVER

F. H. HURDMAN

J. K. MATHIESON

E. GRAHAM PATTINSON

C. OLIVER WELLINGTON

JOHN L. CAREY, *Secretary*

Executive Committee

FEBRUARY 10, 1936.