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December 28, 1976

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Mr. Hamilton Jordan  
Carter/Mondale Transition Office  
P.O. Box 2600  
Washington, D.C. 20013

Re: Recommendation of Marilyn V. Brown, C.F.A. for  
Chairman of the Securities and Exchange Commission

Dear Mr. Jordan:

This is in the nature of a postscript to my letter of December 23 strongly recommending Marilyn V. Brown for the position as Chairman of the Securities and Exchange Commission. I suggest that you ask all those being considered for appointment to the SEC their thoughts on Replacement Cost Accounting. While the topic is too involved to discuss in a letter, the main facts are fairly simple. The Republican controlled 1976 SEC is requiring nearly 2,000 major corporations to report in footnotes to their 1977 annual reports, financial statements based upon replacement cost accounting. If this is not reversed by the 1977 SEC, this will have two results:

1. It will legitimize an accounting method that if adopted by the Internal Revenue Service would probably cut corporate taxes in half.
2. It would give corporate managements unprecedented liberty to report earnings and assets in a wide variety of ways, concealing and making more difficult the understanding of financial statements by even professional analysts.

Four of the "big eight" accounting firms have come out against replacement cost accounting even though it has the potential to benefit greatly their clients' tax position and the direct benefit of requiring a substantial addition to the auditing work (and billings) for the accounting firms.

In my opinion, this is the major policy question that should be faced squarely by the new Securities and Exchange Commission since it has broad implications. I would be pleased to discuss this with you in person, if you wish since I regard it as such a crucial point. However, I recognize the limitations on your time and realize that you may already have received a briefing on this major topic from those you have been considering for appointment to the Commission.

Sincerely yours,

*Robert D. Niche*

EDM:lmb

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