

## COMMENTARY

Charles W. Mulford, David B. Smith, David E. Stout, Mary S. Stone, and  
Thomas R. Weirich (members of the 1990-91 Securities and Exchange  
Commission Liaison Committee of the American Accounting  
Association)  
on

### Bridging the Gap Between Accounting Education and Practice: The SEC Academic Fellow Program

Accounting practitioners (e.g., *Perspectives* 1989) and over a decade of accounting conferences have lamented accounting educators' lack of awareness of the complexity of the problems facing accounting practitioners and standard setters.<sup>1</sup> Arguably, this lack of understanding translates into superficial teaching and less relevant accounting research.

The *faculty* section of the Big 8's (now 6) *Perspectives on Education: Capabilities for Success in the Accounting Profession* (1989, 12) describes the classroom problem as follows:

Most accounting faculty base their course content on information gained through secondary sources—usually textbooks and sometimes standards. They frequently lack other significant, continuing sources of information about the realities of the practice environment.

The effect on research is described by Wyatt (1989, 126), who notes:

Another reason for the limited impact of accounting research on practice is the contention that a disproportionate amount of the accounting research focuses on matters that are not problems to practitioners.

Although calls for bridging the gap between accounting education and practice abound, information on opportunities for doing so often is communicated primarily by word-of-mouth and, therefore, narrowly disseminated. The purpose of this paper is to provide a broad, cross-section of accounting edu-

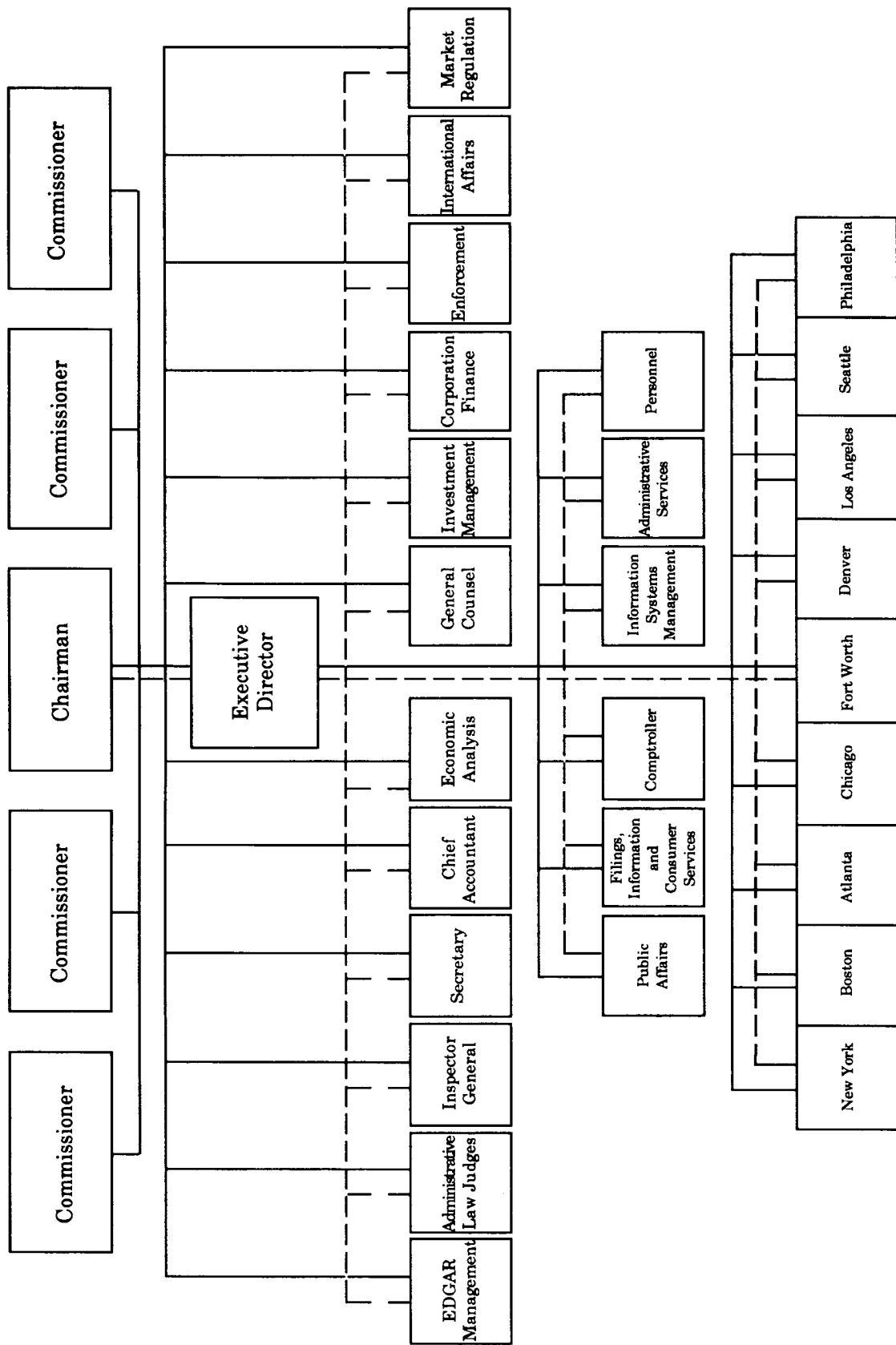
cators with information about the opportunities for practical experience provided by the Academic Fellow program of the Securities and Exchange Commission (SEC). Much of the paper is based on a survey of past SEC Academic Fellows.

#### OVERVIEW OF THE SEC ACADEMIC FELLOW PROGRAM

The SEC is an independent regulatory agency of the United States government created to administer the Securities Act of 1933, the Securities Exchange Act of 1934, and several other acts. Under these acts, the SEC is given broad power to prescribe the accounting and disclosure practices for registrants that issue securities to the public, are listed on stock exchanges or are traded over-the-counter and hence must file annual audited financial statements and other reports with the SEC. Although the SEC delegated the prescription of accounting standards to the private sector in 1938 and has reaffirmed its willingness to rely on standards established by the Financial Accounting Standards Board (FASB), it interacts actively with the FASB,

<sup>1</sup>Conferences discussing bridging the gap between accounting education and practice have been held at The University of Alabama, Duke University, the University of Illinois, and the University of Kansas.

**FIGURE 1**  
**Securities and Exchange Commission**



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Lines of budget and management authority

Lines of policy and judicial authority



identifying issues of concern to the securities markets and responding to FASB proposals. The SEC also is responsible for professional oversight.

The SEC was officially created by the Securities Exchange Act of 1934. The overall responsibility for carrying out the SEC's mission rests with five Commissioners appointed by the President with the advice and consent of the Senate. The Commission's Staff, as depicted in Figure 1, is organized into various offices and divisions that have specific areas of responsibility for different aspects of the federal securities laws. The divisions consist of (1) the **Division of Corporation Finance**, which has the overall responsibility for assuring compliance with SEC disclosure requirements by public entities; (2) the **Division of Market Regulation**, which has the oversight responsibility for activities occurring in the secondary markets; (3) the **Division of Investment Management**, which administers the Investment Company Act of 1940 and the Investment Advisors Act of 1940; and (4) the **Division of Enforcement**, which has the responsibility for enforcing the federal securities laws.

The **Office of the Chief Accountant** serves as the principal expert advisor to the SEC on all accounting, auditing, and disclosure issues. Its objectives are to improve accounting and auditing standards and to maintain the high standards of professional conduct of the independent accountant. This latter objective is met by the Office in administering the SEC rules on auditor independence. The Chief Accountant's staff currently consists of thirteen permanent members (the Deputy Chief Accountant, five Associate Chief Accountants, five Assistant Chief Accountants, a Chief Counsel, and a Staff Accountant), five Accounting Practice Fellows,<sup>2</sup> and the Academic Fellow.

The stated objective of the Academic Fellow program is to enhance "the ability of the Office of the Chief Accountant to meet its mission as the primary advisor to the Securities and Exchange Commission and the Commission's staff on matters of financial accounting and reporting policies and their implementation" (SEC, 1990).

The activities of the Office of Chief Accountant, in which the Academic Fellow may participate, include:

- oversight of standard setting organizations, including the Financial Accounting Standards Board and the Auditing Standards Board;
- Commission rule making and other policy making initiatives, including the development of Staff Accounting Bulletins;
- relations with other organizations, such as professional groups, the Congress, and other regulatory agencies, including those from other countries;
- consultations with representatives of individual registrants and their accountants;
- consultations with the staff of the Commission's Division of Corporation Finance; and
- consultations with the staff of the Commission's Division of Enforcement.

The actual activities in which an individual Academic Fellow participates vary and depend on the issues under consideration during the term, his/her qualifications and the qualifications of other members of the Chief Accountant's staff.

A typical week in the life of the Academic Fellow may include: attending a meeting with a registrant and its auditors on an accounting or auditing issue; reviewing an enforcement case pending before the Commission; participating in a meeting with members of the Financial Executives Institute discussing current accounting issues; reviewing and commenting on a new exposure draft of the FASB; attending a Congressional hearing concerning SEC issues; or serving as a liaison with educators on research issues relating to the SEC or data filed with it.

<sup>2</sup>Accounting Practice Fellows are the counterparts of Academic Fellows. Most are senior managers with public accounting firms. As Practice Fellows, they are involved in the study and development of rule proposals under federal security laws, liaison with professional standard setting bodies, and consultation with registrants on accounting and reporting issues.

### EXPERIENCES AND ASSESSMENTS OF PAST ACADEMIC FELLOWS

To find out what the foregoing, broad and flexible description of the Academic Fellow's position actually translates to, we surveyed past SEC Fellows. We asked former Fellows: (1) what interested them in becoming a Fellow; (2) what the major accounting, regulatory, and economic issues were during their time at the SEC; (3) what projects they worked on at the SEC; (4) how they interacted with accounting educators while at the SEC; (5) what was unique about their SEC experiences; (6) how these experiences affected their teaching, research, and contracts with the accounting profession; and (7) what are the most important skills and attributes an accounting educator needs to be an Academic Fellow. The Fellows who responded to our survey and their university affiliations are listed in Table 1. Their responses to our questions are summarized below.

#### Work of Past Academic Fellows

Past Fellows indicated they went to the SEC because they wanted to have experience at the policy-making level, to be able to see standard setting and regulation from another perspective, to gain insights for their teaching and research, and to increase their marketability.

Table 2 lists the major accounting, regulatory, and economic issues that have been under discussion at the SEC during the years that Academic Fellows have served at the Commission. The table reads like the topics list for a financial analysis, graduate theory or current topics course. Notably, many of the issues that were under discussion during the terms of the earliest Fellows are still in the news (e.g., loan loss reserves, preparer domination of standard setting, management reports, and international standards harmonization).

In addition to participating in deliberations related to the issues listed in Table 2, Fellows were given specific responsibilities for the projects listed in Table 3. The Fellows' memories of their unique experiences at the SEC include: working with the AICPA Auditing Standards Board on the project concerning the elimination of the "subject to" opinion qualification; observing the transition from one chief accountant to another; participation in an enforcement case in which the Commission set analytical review standards; handling the SEC's response to the death of Carmen Blough—the SEC's first chief accountant; researching and suggesting the adopted enforcement solution to the AT Bliss case; attending registrant conferences; attending meetings of the FASB; and working with accounting problems related to leveraged buyouts (LBOs).

TABLE 1

#### Past SEC Academic Fellows Years of Service and Current Affiliations

George C. Mead (1979-80)	Michigan State University
Harvey S. Hendrickson (1980-81)	Florida International University
Jerry L. Arnold (Summer 1981)	University of Southern California
Jack C. Robertson (1982-83)	University of Texas at Austin
John H. Smith (1983-84)	Northern Illinois University
Robert K. Eskew (1984-85)	Purdue University
Johnny R. Johnson (1985-86)	American University
Wesley T. Andrews, Jr. (1986-87)	Florida Atlantic University
Paul B. W. Miller (1987-88)	University of Colorado at Colorado Springs
Ray G. Stephens (1988-89)	Kent State University
Position Vacant (1989-90)	
Thomas R. Weirich (1990-91)	Central Michigan University
Robert W. Rouse* (1991-92)	College of Charleston
Thomas I. Selling* (1992-93)	Wake Forest-Graduate School

\*Fellows after the survey was completed in Spring 1991.

**TABLE 2**  
**Major Accounting Regulatory Issues During Past SEC Academic Fellows' Tenures**

Accounting for financial institutions	Management's discussion and analysis
Accounting for financial instruments	Management forecasts
Analytical review	Management/Auditor reports on internal control
Auditing—subsequent discovery of failure to perform procedures	Market-to-market
Auditor involvement with interim statements	Negotiations with the FASB
Business combinations	Oil and gas accounting
Capital maintenance	Other post-retirement employment benefits (OPEBs)
Comparative analysis of international standards for inflation accounting	Peer review and SEC oversight board
Concepts of income and the conceptual framework	Petroleum reserve recognition accounting
Congress—Dingell hearings	Preparer domination of standards setting
Consolidations	Push down accounting
FASB conceptual framework	Redeemable preferred stock
Fifth year of accounting	Regulation—enforcement and auditor involvement in restatements
Insurance company reporting of loss reserve estimates	Reporting cash flows
Integration of international accounting standards	Revenue recognition
International harmonization	Role of the FASB
Junior stock issues	Sale of receivables with recourse
Leveraged buyouts	Savings and loan solvency
Loan splitting	Software development costs
Loans by money center banks	"Subject to" audit opinions
	Unbundled stock units

Fellows also serve as the SEC's liaison with other accounting educators. This role involves responding to written and telephone questions from academics about: technical accounting and auditing issues, the rationale for SEC decisions, issues raised in auditing courses, peer review, international auditing standards, the public ref-

erence room, and the callers' research. Past Fellows also have been asked to speak at university conferences (e.g., the Universities of Kansas, Maryland, Alabama, and North Carolina) and at regional and national meetings of the American Accounting Association. The Fellow also helps to search for his/her successor.

**TABLE 3**  
**Project Responsibilities of Past SEC Academic Fellows**

Electronic Data Gather and Retrieval System (EDGAR)
Enforcement cases
Financial institutions
Interim financial reporting
Junior stock issues
Attendance at meetings of various committees of the AICPA
Attendance at meetings of the Financial Accounting Standards Advisory Committee of the Financial Accounting Standards Board
Attendance at Commission meetings
Liaison with AAA SEC Liaison Committee
Liaison with SEC consultants
MD & A
Oil and gas accounting
Consultation with AICPA Auditing Standards Board
Peer review
Registrant issues
Regular column on SEC activities in auditing newsletter
Unbundled stock units

**Effect on Fellows' Teaching, Research, and Interaction with the Profession**

All of the Fellows characterized their SEC experiences as enhancing their teaching. The ways in which they thought they improved their teaching included giving them: greater credibility with their students; a better understanding of the accounting standard setting and regulatory systems so they could explain strengths and weaknesses; more ability to explain generally accepted accounting principles; enhanced knowledge and understanding of strategies for "cooking the books;" case problems for analysis regarding financial reporting; and contacts to keep up with current developments. One of the Fellows developed and continues to teach a master's-level SEC practice course.

Fellows indicated that their year at the SEC helped their research by increasing their knowledge of current issues and research data sources available at the SEC. Based partially on their SEC experiences, Fellows have published articles on the SEC process, auditor independence, standards overload, analysts'

perceptions of the "subject to" opinion, auditing theory, peer review, LIFO and FIFO manipulations, and cash flows. One past Fellow recently completed a monograph analyzing the impact of independent accountant involvement with quarterly financial data. Another currently is working on a major project on independence and opinion shopping.

The effect on Fellows' interactions with the accounting profession has varied. Three indicated that their SEC experience had little effect because they always had been involved actively in the profession and one indicated that his involvement actually diminished. Answers given by other Fellows included: becoming active in ethics enforcement, becoming more active with the AICPA and state CPA societies, developing valuable contacts at the FASB, AICPA and with the national offices of larger accounting firms. The majority of Fellows indicated that they attend the annual reunion and SEC update held for Academic and Practice Fellows and participate in the SEC Update workshop that precedes each year's annual meeting of the American Accounting Association.

**TABLE 4**  
**Skills and Attributes Academics Will Need to Work in the SEC Environment**

- Ability to learn quickly
- Ability to translate research articles into information relevant to others' projects in progress
- Ability to write well
- Basic knowledge of SEC filing requirements and procedures
- Confidentiality
- Discretion
- General understanding of financial reporting milieu (including auditing and professional oversight)
- Inquisitiveness
- Knowledge of accounting research and ability to apply findings/techniques to current Office of Chief Accountant/SEC initiatives
- Knowledge of GAAP
- Objectivity
- Open-mindedness
- Patience with basic skepticism that academics cannot accomplish much of practical significance
- Personality that will allow one to work with non-academics
- Political awareness
- Practical approach to short-term problem solving
- Recognition of role of SEC in regulatory structures
- Respect for accounting practice
- Tact
- Thoughtfulness
- Tolerant imagination
- Understanding of standard-setters objectives and willingness/ability to contribute
- Willingness to be a member of a team

## BECOMING AN ACADEMIC FELLOW

For readers potentially interested in the program, Table 4 provides past Academic Fellows' perceptions of the skills and attributes academics will need to work successfully in the SEC environment. The most frequently cited skills include knowledge of generally accepted accounting principles and the ability and willingness to participate on teams of professionals formed to address current accounting, disclosure and auditing issues.

The term of appointment for an Academic Fellow is approximately a year in length, with a minimum of ten months and no provision

for reappointments for a consecutive second term. The term begins in July or August. The Fellowship normally is arranged through a contract that allows the Fellow to remain an employee of his/her university for pay and benefit purposes. The SEC pays the university for the Fellow's services. Past Fellows have described the administrative problems associated with the Fellowship as minor.

Additional information on the Academic Fellow program can be obtained by contacting the current Fellow, Thomas I. Selling, Office of the Chief Accountant, United States Securities and Exchange Commission, Washington, D.C. 20549.

## REFERENCES

- Perspectives on Education: Capabilities for Success in the Accounting Profession* (New York: Arthur Andersen & Co., Arthur Young, Coopers & Lybrand, Deloitte Haskins & Sells, Ernst & Whinney, Peat Marwick Main & Co., Price Waterhouse, and Touche Ross, 1989).
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