

THE SEC AND ACCOUNTING,
IN PART THROUGH THE EYES OF PACIOLI

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ABSTRACT

As part of a symposium marking the seventieth anniversary of the creation of the Securities and Exchange Commission (SEC), this Article pulls together two threads, namely Luca Pacioli's prominence in accounting and the importance of the Management's Discussion and Analysis (MD&A) requirements that seek to give investors an opportunity to view a public company "through the eyes of management," to evaluate the SEC's record on certain accounting issues. Because writers in legal journals have largely ignored Pacioli's efforts, the Article begins by highlighting some of the friar's contributions to accounting precepts. The Article next applies some of those precepts in a critique of the SEC's record on accounting issues. Using this discussion as a springboard, the Article then offers additional reflections regarding the SEC's reliance, sometimes via congressional direction or acquiescence, on private-sector bodies to establish accounting principles and standards governing audits of public companies; the SEC's leadership regarding the MD&A requirements, most notably through an administrative action against Caterpillar, Inc.; the SEC's initiatives on internal controls; and auditor independence. After identifying particular accomplishments in most of these areas notwithstanding often inadequate resources, the Article concludes that the failure to safeguard auditor independence stands as the SEC's most glaring weakness during its first seventy years.

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