sequences of prior transactions with last year's customers cannot be quantified until further events have taken place?

It is suggested that the preferred answer to this question in terms of general usefulness, ease of communication, and comparability with other businesses is one which applies a principle that can be loosely worded something like this: The statement should be prepared in such a way that there is released into cumulative operating earnings only those portions of cumulative operating revenues which, as of the statement date, are substantially certain to still belong there after the future events have taken place. Statutory accounting is not entirely consistent with this principle, but I think it tries to be close.

AUTHOR'S REVIEW OF DISCUSSION BY MR. CARLETON

John Carleton's review evaluates the paper on an overall rather than on a point by point basis. An example or two supporting his general criticisms would make them more meaningful.

The review then proceeds to develop argument for a position or point of view concerning what the ultimate philosophy and objective of insurance company financial statements should be. This argument is summarized and crystallized into a definite "principle" in the last paragraph which reads as follows:

> "The statement should be prepared in such a way that there is released into cumulative operating earnings only those portions of cumulative operating revenues which, as of the statement date, are substantially certain to still belong there after the future events have taken place."

Concerning attitude toward financial statements, the author would agree substantially with the principle expressed; the "observations" contained in his paper are consistent with it. The last paragraph however does raise interesting questions which should at least be subject to further exploration, development, and clarification.

The principle is limited to "operating" income and revenue. Should not the same principle apply to investment valuations and increments to surplus? Present practice is much more conservative as to operating results than as to investment valuations and increments to surplus.

The full meaning of the term "release" is not quite clear. The unearned premium reserve does "release" and "withhold" prescribed proportions of the gross premium income. For other deductions the withholding and releasing is accomplished through establishing balance sheet liabilities generally *not related* to revenue, e.g., the provision for unpaid losses. Does the principle imply that safety margins should be built into liabilities and if so should these margins be optional or should they be mandatory and in accordance with prescribed rules.

The term "cumulative" should relate to the balance sheet rather than the earnings statement; the balance sheet reflects complete financial results on a cumulative, all-time basis. The significance of earnings statements lies in what they relate concerning a definite, specified period of time such as a calendar year.

The term "substantially certain" is interesting and may prove to be a useful addition to financial statement vocabulary. The term would be more meaningful if it were considered in relation to the present words of virtue, "full and true," under which the system now operates.

Some further elaboration on points in which statutory accounting *is* or *is not* consistent with the "substantial certainty" principle would make the reviewer's general evaluation more meaningful. Also, can several important concepts of virtue such as "substantial certainty," "full and true," and "objectiveness" all be accomplished at the same time?

DISCUSSION BY ROBERT G. ESPIE

Mr. Otteson's paper is very timely in that the financial statements of fire and casualty insurance companies have within recent years been questioned, at least implicitly, by investment analysts and professional accountants who have shown no reluctance about adjusting official results to produce figures more suitable for investors or more in accord with accounting principles generally acceptable for other types of enterprises. Our financial statements need to be re-examined as to their ability to do what they ought to do and their avoidance of what ought not be done.

Unfortunately, in addressing himself to the "full and true" phrase in the jurat the author has with one stroke claimed an objective that is intrinsically above reproach and posed an ethical problem for which he offers no solution. If the statement signer truly believes, for example, that "statutory over case-basis" reserves are not liabilities, he can hardly sign a statement which so includes them; if he omits them from liabilities and signs the statement he will be charged with perjury on the ground that "full and true" means "full and true in accordance with the requirements for filling in the blank." It seems to this reviewer that only in the area of loss evaluation does the author really concern himself with fullness and truth and that in