Securities and Exchange Commission Historical Society
Oral History Project
Interview with Shaun O'Malley
Conducted on April 1, 2011, by James Stocker

JS: This is an interview for the SEC Historical Society's Online Virtual Archive on the History of Financial Regulation. Today is April 1, 2011. I'm James Stocker. I'm talking today with Shaun O'Malley. Shaun has had a long career in which he has seen the accounting profession grow and develop from many different sides. Thirty-six years, I believe, at Price Waterhouse, culminating in seven years as Senior Partner; three years as trustee and then president of the Financial Accounting Foundation, which oversees the FASB and the GASB; and finally in the business world, where he has served on a number of corporate boards of directors and audit committees. Welcome, Shaun.

SO: It's good to be here.

JS: So to begin, where were you born and where did you grow up?

SO: I was born in Philadelphia and I grew up here. I was the fifth of eight children. I always came back after being away, serving with the firm and with the U.S. Army. I've lived in Texas. I've lived in Germany. I've lived in Japan. I always keep coming back. And of course, New York two different times for a total of over ten years.

JS: You attended the University of Philadelphia here, right?

SO: No. University of Pennsylvania. The Wharton School, Penn, is where I went to college.

JS: I understand that you started as an English major.

SO: I did. That was my fervent hope. But the family finances being what they were, I felt I had to contribute. My father died fairly young. I had younger siblings at the time. I went into the service to get the G.I. Bill, which helped pay for my college. When I came back from the service, I switched over to the Wharton School.

JS: What did you do in the service?

SO: I was in the ordnance corps. I spent about nine months at Fort Bliss, Texas. Then our whole unit was sent to Germany for the last year or so of the occupation following World War II.

JS: Where were you stationed in Germany?

SO: I was stationed in a little village called Gonsenheim, which is right next to Mainz. It was in the French zone. There had not been a lot invested in rebuilding in the French zone, as you might imagine. But it was a wonderful experience for me, both the Army and service in Europe.

JS: So after the Army you came back and you continued your studies at the Wharton School?

SO: I switched over to the Wharton School when I came back. I had done a semester in the college before I went in the service and switched to the Wharton School.

JS: Tell me about your studies there. How did they prepare you for a career in accounting?

SO: The Wharton School curriculum was a broad-based one even back then. Although there were courses I took that would never be given today, such as a course in industry you had to take, which looked at about twenty industries, one every week – steel, oil, manufacturing and textiles, including roads, bridges, and so on. So you got a smattering of every kind of industry in America. They also had statistics, lots of accounting – because I was an accounting major, which in itself was unusual. I knew nothing about business when I switched to Wharton. I just felt I had to be there so I could earn money to help the family.

They asked me at the outset, "Would you like to declare a major?" I said, "I really don't know enough about business to do that." They said, "Well, you could change if you want but why don't you just give us an inclination?" I knew I needed to have some discipline. I said, "Well, what's your toughest major?" They said, "Accounting." I said, "Okay. Put me down for accounting." I could have changed it. But to me it was a very logical subject. I took to it very easily.

JS: So that's how you got into accounting. Did you have any professors there that influenced you?

SO: Yes. I had some. Sad to say, most of them have gone on to their eternal reward. Dick Woods was a professor there, fairly well known. He taught me two different courses, one in systems and, I believe, one in auditing. You had to take around thirty hours of accounting over the four-year period. So it was a full boat. Actually I spent a lot of time thinking about what liberal arts course I would take each semester. I had some great professors there in history and in English. So it all worked out well.

JS: So after the Wharton School how did you come to join Price Waterhouse?

SO: Being an accounting major, it was obvious that the right step would be to go to an accounting firm. I interviewed with probably four of the then Big Eight. I was most impressed with the interviewer from Price Waterhouse. He made me an offer and I accepted it.

JS: Did an accounting student at this time often have a choice of job offers or was it difficult to get a position?

SO: I would think so. If you did reasonably well and if you did well in the interview process. I could have gone to any of the four firms. I chose PW because I was just impressed. I was also interested in international work. I mentioned that in the interview. He told me what the opportunities might be. That too impressed me. But yes, we all went in with our hat in our hand. But really it was not just a buyer's market. It was a good situation. There were openings and there were plenty of candidates.

JS: What were your first years at Price Waterhouse like?

SO: Lots of hard work. You had eight weeks of an initial training course, then you went right out into your first audit, as a junior accountant. We were growing at the time because the economy was growing and lots of new business was coming in. I was able to move ahead. I became a first assistant and then a senior accountant in three years, which was a little faster than the norm at that time. I became a manager after five years. It wasn't just me. Several people moved at that rate. But it was always very interesting.

You had to commit to working very hard. I once worked something like forty-seven days in a row. I was a bachelor, so I think they figured, you know, "It's not like he has kids at home or a wife." But I didn't mind it. I was still interested.

JS: Did Price Waterhouse have a consulting business at this time or offer non-audit services?

SO: Yes. They had what was called an MAS Department. It was not that large. I would say in Philadelphia, when I joined the staff in 1959, the whole staff was about 120 people. I think it was about five people in management advisory services. Two of them had started out on the audit staff and moved over there.

JS: Did you work with consultants on the same projects or was their work completely separate?

SO: In those days completely separate. I mean, there was always a suspicion. Typical. We were auditors. We were suspicious of the tax department and they were suspicious of us. You know, it was sort of like in an athletic team. What are they doing, you know, that sort of thing? We got along with everybody but we would kid each other. It was the early times for the consulting group.

JS: In those first years at Price Waterhouse was George May still around?

SO: He was, I believe, still alive. I don't know when he actually died. We were conscious of George O. May and I was conscious of the history of the firm and the role that he played.

JS: Were the repercussions of the McKesson & Robbins scandal still being felt at this time, from the 1930s?

SO: I would say no. In other words, everybody throughout the profession now was observing inventories as a regular part of the audit process and confirmation in receivables was a very accepted and necessary step. So it wasn't, no. You had studied it in school in auditing, some of the big cases. It had no particular impact.

JS: So you worked in the Philadelphia office. Then in your early career you also spent time in Tokyo and Osaka. Tell me about that.

SO: It was an interesting situation. The firm had several correspondent offices in Japan. An agreement had been reached so that these correspondents would now become part of the international firm and their name would change to Price Waterhouse. Right away American subsidiary companies, once the name Price Waterhouse was on their statements, would want the same level of service and the same arrangements as they had in America. The Japanese in those days prepared their financial statements along the traditional English method. The balance sheet was a little different. The disclosures were not that great to be honest.

My job when I went there – I was a young manager – was to work with the managers in the Tokyo office, all of whom were Japanese. I would take their audit report and financial statements, maybe from the prior year or of the current year if it was in draft, and tailor it, rearrange it in the U.S. format for all U.S. subs, which included writing footnotes to cover a lot of information that was required in the U.S., even though it was not required in Japan. The parent companies in the U.S. wanted that information. I got to know most of the managers in the office by doing that. It was very challenging. I visited a few clients where we had to have an interpreter there to have a discussion. It was very interesting.

JS: Did your Japanese counterparts speak English?

SO: Yes, in varying degrees. I had a tutor teaching me spoken Japanese three nights a week. She would come to our hotel and spend an hour or so drilling me in Japanese.

JS: That's very impressive. So you spent about a year there; is that correct?

SO: No, about six months.

JS: Then you came back and worked in Philadelphia for a while.

SO: Yes.

JS: Then you transferred to the New York office.

SO: Yes. In those days as you moved along and if maybe you were thinking about becoming a partner at some point, they sent you to the research department in New York for two years. It was a wonderful experience. The first year you worked on what they called "day-to-day." It was really client accounting research. All offices in the field could call in with a thorny problem where they wanted some consultation or advice. It was about five or six of us managers in that role. We would report to two different partners who were full-time. You'd tell them what you thought the solution was. Then they would tell you whether they agreed, or they'd ask you to go back and do more research.

Then the second year you spent supporting the firm's member on the Accounting

Principles Board, the APB. In those days each of the eight firms had a member on the APB. You were doing what was called "long-range." You would be researching problems and supporting the APB member and doing research that he asked for. It was often about developing principles. I remember there was a paragraph or two in APB 16 or 17 that I actually drafted. So you were really close to the process.

A lot of problems were solved, at least temporarily, by the A.P.B. in those days. Earnings per share, mergers and acquisitions, leases, and several other issues were dealt with and pronouncements were made. It was an interesting time to be in that job.

JS: So this was a time when they were working on the purchase versus –

SO: Pooling.

JS: – pooling controversy, right?

SO: Yes.

JS: What position did Price Waterhouse take on that?

SO: Price Waterhouse accepted pooling. None of the firms really spoke out in favor of eliminating pooling of interest, perhaps tightening it up. In practice you could see there were some poolings that probably should not have been poolings, but they met what was then considered to be the letter of the law. Eventually, of course, pooling went out the window.

JS: These were the final years of the A.P.B. of course.

SO: Yes.

JS: Were people at Price Waterhouse concerned about the future of the profession because the professional standards bodies were having so much trouble?

SO: Well, when you say, "Were they worried about the profession?" No. They were worried about the way the principles were formed. I think all the firms got behind the FASB at its outset and felt that it was truly an independent group and that maybe it would work better than the APB. Although if you go back and look at the history of the APB and the issues they dealt with and the problems they solved, I think they deserve a pat on the back.

JS: In 1970, you made partner.

SO: Yes.

JS: And you came back to Philadelphia?

SO: Yes.

JS: What sorts of issues did you work on throughout the 1970s?

SO: You mean, when I came back to Philadelphia? Initially, they assigned me to a number of medium and smaller clients, although my experience in the firm in the early years had been on major, large clients. When I came back, and I think some of the partners were asked was there any client they would prefer that I'd be handling, so I ended up with – well, let me put it this way. My first year at the annual golf outing party, the managers in the office presented me with a framed copy of a clean opinion because I had issued so many opinions with exceptions and going concern opinions and so on. So they challenged me.

At that time I was probably at the peak of my technical capability after my experience before and the two years in research. I was pretty strong technically. I enjoyed the clients.

JS: In 1973, under pressure from the FTC and the Justice Department, the AICPA lifted the ban on competitive bidding between accounting firms. How did that impact the accounting industry?

SO: I thought that was a terrible thing, because it said, "Your code of ethics, put it in the waste basket." We were always taught that ethics was a very strong part of being a professional and that you should abide by the rules. Now all of a sudden it was the market, sort of dog-eat-dog. It was go after other people's clients, do all kinds of things like that.

JS: So you saw a change in your own office?

SO: Yes. Competition started happening. You became aware if other firms were ringing the doorbell on your client or trying to ease in through one way or another, often to get some kind of an assignment, and then leverage it into getting the whole thing. So it became a lot more competitive. Frankly, I did not appreciate it. I thought it diminished the profession. But you had to live with that. That was the way it was.

JS: So in 1979 you became partner in charge of the Philadelphia office?

SO: Is that when it was? I guess.

JS: How did your duties change then?

SO: I was always a client service person. I always thought that was the key role of anyone in the firm, including partners. I did not like the idea of lots of partners working full time on administrative matters, although that becomes a necessity eventually. As partner in charge, I maintained a client assignment, setting a good example. While I was in charge of the office, I was always personally responsible for the audit of a client. It was an interesting time. We were still growing, although there were some ups and downs. We made some new partners. We had a good office. We always had a good office that believed in itself.

My predecessor, a partner named Jack O'Hara, was famous throughout the firm. He was very gung ho. He was a Harvard Business School graduate, extremely loyal to his people. He supported you totally. He also demanded a lot of you. That was a good example for anyone heading up an office. I didn't have the same personality as Jack. Nobody did. But he was a good mentor.

JS: In 1984 you joined the company's Policy Board?

SO: Yes.

JS: What did the Policy Board do?

SO: The Policy Board is essentially the board of directors of the U.S. firm. The electoral process would be that a committee of partners would go around and interview as many partners who wanted to be. They'd go to an office. Anyone could sign up. Oftentimes, when you were a young partner, you would not know any of the potential candidates. So you might decline the interview or else sometimes you would just say, "Well, this is a type of person I'd like to see, or we need somebody with this, that or the other." So that process had taken place. There were three openings. Three of us were nominated. It was really odd and somewhat humorous in that the three people who were nominated this year were Shaun O'Malley, Matt O'Rourke, and John O'Brien, three Os.

JS: Somebody liked the letter O, apparently.

SO: Yes. One of them was in Cleveland, and one was in San Francisco, and I was in Philadelphia. So we joined the Policy Board.

JS: Did that take up a lot of your time?

SO: Yes. I don't know, maybe 15 percent of your time because you had to go to meetings.

JS: Were the meetings in New York usually?

SO: Yes. They were just about always in New York because that's where the leadership of the firm was, and the national office. You also had to serve on committees. One of them was the admissions committee, which required you to go out and interview partners in various offices about candidates that they had put up for partner. You had to dig into his credentials and so on and then report back. The admissions committee would then report back to the full Policy Board when they were voting on new partners. That's so important because you're making a huge decision with each partner. If the partner is thirty-five years old and the retirement age is sixty, you are taking this person on for a twenty-five year contract.

So we were very careful about who became a partner. No matter how hard you try, you always made some mistakes. I mean, you would turn down someone, then later you would say, "We should have taken X." Or you would take X and then later think, "Maybe that wasn't the best move." But the process was such that I would say 99 ½ percent of the time we got the answer right.

JS: That's a pretty good success rate. In 1984, there was a discussion of a possible merger with Deloitte, right?

SO: Yes.

JS: What happened there? Were you involved in that at all or was that before you joined the board?

SO: The discussions had started before I joined the board. I had spoken out before this happened and said, "We don't want to be the last person on the block. This is going to happen. There's going to be consolidation in the profession. We should be addressing this and looking for what we want to do." I had said that before any of us knew what was going on. Then in my first Policy Board meeting, I noticed the senior partners said they were in these discussions and nearing the finish line. And it was sort of like, "See, we were doing that."

JS: So you didn't know about that before you joined the Policy Board?

SO: No. Basically what happened is that the U.K. firm, which was the strongest one – the U.S. and the U.K. were the two strongest firms in the network. We had said we couldn't go forward unless we had, I think it was, the five largest, strongest firms. That would be the U.S., the U.K., Europe, South America and Australia. The U.K. backed off and said, "No." Because their approval was a condition of going forward, it just didn't happen.

JS: At this time you also served on the World Firms Council of Partners and on its General Council?

SO: That's right.

JS: Did you join those at the same time as the Policy Board?

SO: I think a year later or something like that. Or maybe I was on the World Firm Council before that. That was interesting because you met a couple times a year, and there were partners from every firm. There might be, say, fifty people in the council. There might be five U.S. and four from the U.K. But every firm had at least one. You would have various break-out groups and discuss particular problems or issues and what you thought ought to be done. Then the Council would come together and summarize what had been discussed and agreed upon and recommend something to the World Board to approve this, that, or the other thing.

The other part was you got to know people. I knew people from just about every firm around as a result of that experience. I also knew some from having sent them instructions to do a subsidiary of the company that I was in charge of. So it was interesting – it had no real power but it could recommend things to the World Board.

JS: Where were these meetings? Did it rotate from year to year?

SO: Yes. Don't ask me where. I think there was one in Canada. There was probably one in Europe. There might have been one in Asia.

JS: Then in 1987 you were selected to be the new Senior Partner.

SO: Correct.

JS: This was immediately after the Savings and Loans Crisis, right?

SO: Yes.

JS: How did PW weather the Savings and Loans Crisis?

SO: We basically were not strong in that particular area. It had almost no effect on us. I can't name a single S&L of any significance to us – you could say we had missed the boat or something. We didn't have many clients in that industry. We had a lot of big banks. But we didn't have S&Ls to any degree. So that crisis, other than the fact that it got people talking about audits again, had no real effect on us and certainly no financial effect on us.

JS: Was that a conscious decision by Price Waterhouse not to get involved in the savings and loans industry?

SO: To some degree on smaller savings and loans, yes. We did not look to get those as clients. We felt the same way about casinos.

JS: So tell me about the selection process for Senior Partner. How does that work and how did you get there?

SO: That's a good question. The way it works is the Policy Board appoints a nominating committee. The committee does not include members of the Policy Board. It's composed of partners throughout the firm. They make sure that every geographic area is represented and every discipline is represented, et cetera. Then they put that out to the partners. The partners then approve the nominating committee. If somebody wants to say, "I want someone else to be on that, too," and enough people agreed, then they might add him. That never happened, because it was such a good and fair process.

They made sure everyone, young, old, audit, tax, MAS, geography, everything was represented. Then the committee would go to every office, well, not all of them. Different members of the nominating committee would interview partners, and ask "Who do you think?" At that time the only ones who were eligible to become Senior Partner were members of the Policy Board. So that narrowed the field. Then the nominating committee would meet. After all these interviews they would get together for a long weekend, or as long as it took. They used to joke, "Until white smoke went up." They would then decide.

The nominating committee established its own rules too, when they first met – what they were going to do, how they were going to do it. They would put forward a candidate to the partners. They could put forward several candidates, but in the history of the firm, the nominating committee had never put more than one person up. And before they went off, in this case to Chicago, for that long weekend to make the decision, they interviewed every one of the candidates.

JS: How many candidates were there?

SO: There probably were about six or seven on the Policy Board. Now, a couple of them took their name out early and told them, "I have no interest," sort of like Calvin Coolidge, "I don't wish to run." I thought once you were on the Policy Board, you had a responsibility to run since only Policy Board members were eligible. I must tell you that I had no expectation that I would be the candidate. There were a couple of people that I thought might be nominated.

JS: There are even newspaper articles from the time that note that you weren't the frontrunner of the competition.

SO: That's right. I was actually out in Detroit. I was interviewing the partners in Detroit about their proposal for a new partner as part of my responsibility on the admissions committee. When I got the call, I was totally shocked. And they said, "You can't tell anybody because we're not going to release this yet." It was coming up on Thanksgiving, and they wanted to do it right after Thanksgiving. They said that you could tell your wife. So I said, "Thanks."

JS: How kind.

SO: So I called my wife and told her. That was pretty much it. Subsequently, there was a formal partners vote. But there was only one candidate. That started a whole new career.

JS: So what were your priorities after becoming Senior Partner?

SO: Well, globalization was starting and so complete integration of the firms around the world was one of my things. As always, I said at the outset, clients are number one priority for everybody. I actually established a Chairman's client service award, which I gave out quarterly. The winner would get to come to New York and have lunch with me. (Laughter.) That was a great reward. Oh, he also got a check. But it was just constantly emphasizing the importance of outstanding, excellent client service and in every discipline.

Of course globalization was key. And strengthening international operations. I'd say those were the two principles. HR is very important for both partners and non-partners, professional staff.

JS: Very soon after your selection to senior partner, you told the *Wall Street Journal* that the accounting profession, quote, needs to work on its credibility, unquote. You also said, "We're going to have to be tougher with our audits." What made you think this?

SO: Well, just what was going on. Whenever there was something would go wrong in a financial statement, the old "Where were the auditors" question would come up. We were fairly fortunate in that we didn't have a lot of lawsuits and the like. But it was clear that the profession was under the gun. Congress had looked into things. Everyone was telling them how and what they needed to do. So credibility was an issue. I felt that that was important.

JS: Were you also thinking about possible mergers at this time? Within two years there was discussion of a merger with Andersen.

SO: I wasn't thinking of it. But again, remember back when the first discussion took place, I still felt that there was going to be consolidation. It was unstable, the profession, in terms of the eight firms all trying to stay independent. You began to hear rumors about Deloitte & Touche and Ernst & Ernst. We had actually talked to Deloitte again during those times very briefly. The names and the people had changed, including me.

We spoke to Andersen. We partners had agreed to spend a considerable amount of money on developing our consulting practice. When partners invest money, it doesn't go on the balance sheet. It goes right down to the P&L. We had already agreed to spend a large amount to beef up our information technology capabilities, for a variety of reasons. Then all of a sudden when we got the call from Andersen, the question was, "Well, this is an opportunity where we aren't going to have to invest this money."

JS: Andersen was the strongest in IT services at this time?

SO: Yes. And we felt we were the strongest in auditing, based on our clientele and our experience and so on. So it looked like it could be a possibility. We entered into talks with them. We announced that we were in talks. Then they just did not work out.

JS: The Justice Department even approved it, I believe?

SO: I don't recall that. But it's possible.

JS: At this time was litigation posing a threat to the accounting industry?

SO: Litigation was always a threat to the accounting industry.

JS: So it didn't just start then?

SO: No. The plaintiff's bar went from asbestos to auditors. They move wherever opportunity lies. There was a period of time when going after auditors was a hot ticket for them. So everyone knew that there was that threat. We said you had to be tougher on our audits and you have to be very, very careful. We said, "You have a responsibility to share your big issues with your partners." In other words the word that came down was, "Don't go it alone." If you have a really tough call on an audit and it's a very difficult and complex situation, don't go it alone.

You have the right, when you become a partner, to pick up that pen and sign Price Waterhouse, but the message was, "Share it." Hey, go down the hall and discuss it with another experienced partner. "This is the problem I'm having. Here's what I think we might do." Get his or her views on it or call the research department in the national office to say, "This is the problem we're having." The research department could look not only at the literature and interpretation, but they could look at cases of similar situations that were kept in our files.

They could say, "Well, in this case, we handled this problem this way in New York." But the idea was just don't go it alone. Make sure you share it with a partner. You have that responsibility. We have that responsibility to each other.

I think that happened. It worked well for us.

JS: There were two big cases in the early nineties that affected Price Waterhouse. One was BCCI. How did this affect the American firm?

SO: Very little. The only thing we had done on BCCI in the U.S. was certain work on instructions from the U.K. There was not a problem with that particular work or the outcome or whatever.

JS: It was the U.K. firm that had done the auditing of BCCI?

SO: Pretty much. I think they had farmed out, depending on location, some of it. But they made the key decisions and so on.

JS: What about Standard Chartered?

SO: Standard Chartered. That was a bear. I don't want to go into it because it would take me a while. Basically, they had no case. I'll try to make this as brief as I can. They had agreed to buy a bank in Arizona, which was going through an absolute total boom in real estate.

JS: That was United Bancorp.

SO: Yes. The lending for real estate was huge. Standard Chartered felt at the time that they didn't want to be left out. They wanted in. So they made an offer. Then nothing really happened. Then they made a bigger offer without doing any more due diligence. They won with their bigger offer. They acquired this bank. Well, within six months the bubble of Arizona real estate burst and up went the loan reserves and down went the profits and the share prices. Standard Chartered had – again, this happens a lot – had to find a scapegoat. And so we were it.

They hired an attorney who was well reputed in plaintiff's bar circles in Arizona as being one tough cookie. They sued us. We had a young staffer, a girl. This guy in cross-examination had her practically in tears. Let me see if I can recall it. The jury then awarded some huge amount, which would have put us very close to the Chapter. It was at a high point of my time because I had to keep our public face strong. I continued to make the case that this was an absurd ruling.

JS: It was a $338 million award.

SO: Yes. So the judge in the case, just to make it even scarier, he had gone to university I think in Washington. He had been a gymnast of some sort. He was on a trampoline and landed wrong and broke his neck and paralyzed himself from the neck down. He sued and he got a settlement, then put himself through law school. Now he's a judge. He's known to be very favorable towards plaintiffs. That made it particularly scary.

We appealed that verdict. All along I had to keep telling clients and telling the public, "This cannot stand. We will emerge from this one."

I did a lot of praying too. I'll never forget the Friday that it came in. They called me, the attorneys from Phoenix. They said, "Well, it's over. The case is over." I said, "Well, what's the number?" He said, "The number is zero."

JS: Was there a small party at the Price Waterhouse office that day?

SO: No. I went to St. Patrick's first on my way home, because I thought, "How could this happen, a case that really isn't a case?" Our lawyer had told us at the outset, our in-house lawyer, "This case, because of the way the trial went, could cost us a few million." He named a number. The judge, when he issued the ruling, he left one opening that the case could go back again to court. That didn't happen. It was settled for this small amount and that was the end of it. But the number out there was so big. I was afraid that we would lose clients or lose partners. And we lost neither. No clients left and no partners left during that period.

JS: So it was a successful case in public relations management?

SO: Yes. And also within the courts.

JS: By 1992 Price Waterhouse posted the second-highest rise in revenues of the big six accounting firms, right behind Andersen. So you were doing something right.

SO: Yes. We were doing well.

JS: How does one become a trustee of the Financial Accounting Foundation?

SO: I have no idea. I imagine there's a nominating committee from inside. I was called and asked if I would be willing to serve on the board of the FAF, as we called it. I agreed to do so. You had to say, "Yes," because everybody had to take their turn.

JS: Did you know Denny Beresford or any of the other FASB board members before you became a trustee?

SO: Yes. I had met Dennis. Who else were members at the time?

JS: Jim Leisenring was.

SO: I didn't know him until then.

JS: I don't have the list with me in here.

SO: I probably knew a couple more.

JS: What was your experience there like, in general terms? What were you expecting in terms of duties?

SO: There were two major duties. One was to see that the FASB was funded and the other was to nominate members to serve on the board. There was always pushback in the public about the membership, that there were too many bookish, professorial or whatever types. We needed more practical people who had been out there in the trenches and knew what it was all about, who knew business and knew accounting from that angle. We had good cooperation in naming members. I don't remember all the ones we named. They served well.

JS: Well, let's take those two issues one by one. First you talked about the finances at the FASB. When you became a trustee, I believe that FASB was having some financial problems.

SO: Maybe. It wasn't a big, terrible thing.

JS: No?

SO: But there was probably a dip in contributions. So we pushed hard.

JS: So how did you go about fundraising? Did you just make phone calls?

SO: Yes, or wrote to say how important it was to keep this in the private self-regulatory cycle.

Companies responded, pretty much, and the accounting firms also stepped up.

JS: Was there every any concern about the possibility of the FASB suffering a drop in operations because of the funding issue?

SO: No. Not to my recollection, not at all.

JS: Okay. And in terms of selecting board members, how did you go about the selection process?

SO: FASB members? Well, anybody could nominate people or suggest people. So you had a list of people. You'd have some typically retired partners from accounting firms. You could have active or retired financial executives from industry or you could have academics. So you usually got the nominations, considered them and then you looked at the balance of who was on the board.

JS: I know at the time there were some newspaper articles about Arthur Northrop, who was on the board, who was up for a second term, and then was not invited to serve for a second term. Do you remember what happened there?

SO: I don't remember. I don't even remember that he was denied a second term. I just have no recollection of that.

JS: Perhaps that might have been overblown in the news reports also.

SO: Yes. For all I know, he might have just stepped down.

JS: Also in 1990 the trustees voted to change the voting procedures of the FASB to five to two rather than just a simple majority. Do you recall that?

SO: I do recall that. I was very much in favor of changing that. I said, "What we're putting forth here are what we call our generally accepted accounting principles," meaning these principles have fairly wide acceptance within the community that relies on them and that had to enforce them. I said, "Four to three does not imply that kind of support." I thought five to two did. I don't know if I brought it up first, but I was strongly in favor of it. I thought, "It makes a lot of sense." Because then you could say, "This is definitely something that has wide acceptance. It's a generally accepted accounting principle."

JS: Were there any standards that you were particularly concerned about that they'd been passed on four to three basis or was it more the principle of the matter?

SO: It was more the principle of the matter. There might have been. But I have no recollection of which one I would single out as being a bad one. None of them were that bad anyway.

JS: At this time there was consideration of a number of standards on financial instruments.

Do you recall the debate over that at the time?

SO: I recall there was a debate. Mostly the issue was to have current market reflected in the carrying value.

JS: Right, market value. How involved were trustees in the FASB's day-to-day work?

SO: Not at all.

JS: Did they ever call and say, "Hey, we're considering this issue. What do you all think about this?"

SO: Never. They were truly independent. If I had called one of them – They never called us. If I were to call one of them and say, "Hey, I think you are –" They would have just hung up the phone. No. They were truly independent. There was no attempt to interfere with their work or to influence them. Now, I'm speaking for myself. I can't say for certain that no – I don't think anyone else would have. It's possible someone on an isolated basis might have. But I would be very surprised if I heard that.

JS: Already at this time there was also a lot of talk about the issue of auditor independence. One proposal in 1991 from the comptroller general was to require the nations' fifty biggest banks to switch accounting firms every five or seven years. What did you think about this?

SO: I didn't think it was a good idea. I don't know who did this study. We were interested in it. It showed that when auditors change in large enterprises, errors frequently occur in the first two years following the change. I know one case. I don't know what bank it was. It was a bank that when we were replaced by somebody else, in the next year they had to go back and restate their account. It's very hard to get your arms around a large complex enterprise. The first year is particularly difficult. You have to invest a huge amount of time and money because you're not going to get paid for your learning curve, and often it can extend into the second year.

It's a torture to the companies themselves, the amount of management time that you tie up when you go in there. Making a change ought to be done from time to time in the right circumstances. But to have a mandatory required change, I think, is a bad idea. I've said and I may have even testified in this. But look, this happens every year. The audit committee has to make a decision. You issue a proposal each year for the next year's audit. Then they have the right to change or to say, "Let's invite somebody else in." I assume that happens from time to time. So really it's not as if that isn't going to happen unless you do this. No. I didn't think it was a good idea to make it mandatory because you would have a very good-running audit, a good relationship and you could just foul it up by forcing a change.

JS: This is a perennial issue in public policy on accounting.

SO: Oh, yes, and it will continue to be. There's always somebody who says, "Just make them change very few years."

JS: Right. I want to read you a quote from Donald Kirk in 1991, if it's okay. "Many groups view the board" – and he's talking about the FASB – "as fair game for lobbying. It has become part of our way of life. And it seems a bit unfortunate when it goes on to the extent it is going on with regard to the FASB." Do you think that's a fair assessment, that there's a lobbying that goes on?

SO: It depends how you would describe lobbying. Well, what would happen? They would take up an issue. They would issue some kind of preliminary discussion paper or something like that and encourage people to respond. So people would respond, particularly if their toe was stepped on in the discussion. Then the draft of what's going to be the new principle would come out, and the same thing would happen, if you call that lobbying. Now, lobbying sometimes, I think, went to extreme. I think I mentioned to you over the phone that President Clinton wrote to the FASB at one time about the option pricing, requiring that to go against income. So the lobbying phone calls to the FASB probably happened. They never complained to us, not that we would have done anything about it.

JS: Did people ever complain to you? Did you get phone calls?

SO: No. But when I was chairman of the FAF, one of the things I always did, given my belief that client service was number one, I would visit our major clients throughout the country and some throughout the world. I interviewed the first hundred clients going around. Somebody said, "What are you going to do when you get done with that?" I said, "I'm going to start over again." During that time I would say, "By the way I'm chairman of the Financial Accounting Foundation. We help to fund through yours and others' contributions and appoint members of the FASB. Is there anything you'd like to tell me about your view of the situation?"

By and large they were pretty docile. They'd say, "Well, you know, it's a difficult situation. I'm sure you've got to be doing the best you can, though I don't like this particular FASB." But nothing I could do about that anyway. But one time I went, there was this particular client. He was well known as a tough critter. He said, "I'll tell you what I would do if I were you." I said, "What's that?" He said, "I would get a bulldozer." He said, "I'd just bury that outfit up in Stanford." I said, "Oh, okay. Thanks for your comment." That was the end of that. I got that but other than that, it was mainly just sort of, "Oh, it's life. We've got to have rules and regs."

JS: Was that person angry about the issue of stock options?

SO: No. That had nothing to do with it, he was one of these he-governs-best-who-governs-least type of guys. No. It had nothing to do with options.

JS: Right. Now, options did become an issue probably at the end of your term there.

SO: At the FAF, yes. Oh, well, that was a hot, hot, hot issue. I'm sure that Don Kirk felt the heat of the opposition to that.

JS: Right. In your final two years at Price Waterhouse, how did you prepare to leave?

SO: I felt that the profession, looking at the major firms, was still unstable. You already had the two mergers. There was bound to be more. I had stated that, A, this firm's name should remain forevermore as worthy and a recognized name in the profession, and second, my successor should become the CEO of whomever we merged with. I said, "To be sure of that we have to make sure our client base is firm, make sure it's growing and make sure there are earnings. Those things happened. The name remained. My successor became C.E.O. of the merged firm.

JS: Had there been any talks with Lybrand & Coopers during your time as senior partner about a possible merger or did that come later?

SO: Yes. About the time we were talking to Andersen. And we talked to Deloitte again before they tied the knot. Yes, there had been talks. But the feeling was that maybe we'd be better off alone, since we already had this great audit base. We talked to everybody, just about. Well, we talked to Coopers and you talk to Andersen. Peats had already gone with the Klynveld firm, the K of KPMG.

JS: So after you left Price Waterhouse, what did you do?

SO: I was out of sight from everybody down here that I'd known for many years as an auditor and as a partner, as the guy in charge of the practice. I was totally divorced from Philadelphia. They said I could have an office in Philadelphia or New York. I thought, I should get away from New York because I don't want to seem to be stepping on the toes of my predecessor or questioning. So I came back here. About a month before retirement, I came down and I called on about five people that I had known. I said, "I'm coming back. I'll be available." So that was about it. Each one of them recommended me for a board or for some involvement in the community and so on.

JS: You didn't have any trouble finding things to do?

SO: No, no. It went gradually, but yes.

JS: So how did you come to be asked by the Public Oversight Board to chair their Panel on Audit Effectiveness?

SO: I can't be sure what their deliberations were, but I got a call. I can't remember from whom, but it was one of the senior members of the POB who told me about the project. They had thought I would be a good chairman and would I do it. I thought it was a worthwhile thing I thought I could do. I had an excellent staff, as it turned out, to carry it out.

JS: Tell me about your staff. How big was your staff?

SO: Well, we had about five or six people. Then there were some loaners from some of the firms. Dave Pearson, he was the staff director. He was a retired E&Y partner. There was George Fritz from Coopers, Ed Noonan from KPMG and Tom Stemlar from Arthur Andersen. They were all full-time staff. Then the firms all lent another twelve people or so for particular tasks or to accompany staff on the quasi-peer reviews and the like. It was a good team that we had.

JS: Now, the panel was convened at the request of SEC Chairman Arthur Levitt. Did you know him personally?

SO: Yes.

JS: Did he pick you or do you think –?

SO: No, the POB.

JS: It was the POB that did. Did you already know the other members of the panel before you started?

SO: I knew some of them. I knew Ralph Saul and Zoe-Vonna Palmrose. I also knew Paul

Colton.

JS: Did you pick the members of the panel or was it the POB that did it?

SO: No. They picked them.

JS: Before you agreed to chair the group, did you already believe that there was a problem with the audit model as it had evolved over the previous years?

SO: Well, there's always some problem with the model. There's always issues. As time changed and with the runaway growth of IT, there's always going to be issues. I just thought the SEC was coming down hard and speaking out. Something like this was needed to deal with the issues that were being brought up. So it made sense.

JS: Did the panel choose the agenda items itself or were they given to it? I'm talking about issues that they dealt with, like the question of independent auditor's responsibilities and the audit methodology.

SO: Yes. We chose them. Some of these things had been spoken about or recommended either by the SEC or by others. We talked to everybody you could imagine that had an interest and made our decisions about what we thought needed to be addressed.

JS: At the outset of the project did you expect that it would take two years?

SO: I wasn't sure how long it would take. Did it take two years?

JS: I think the report was issued in 2000, and the panel started in '98.

SO: August of 2000 we issued our final report. The panel was formed at the end of '98. We wrote in January of '99 what we were doing. Then we started the public hearings. So it was probably a year-and-a-half. I hadn't thought about exactly how much time it would take. But that particular time table didn't upset me.

JS: Okay. In terms of methodology, the report used a variety of different techniques. First you had these quasi-peer reviews. How did you go about selecting the audits that you would look at?

SO: We just made sure that we covered every firm and different industries and the like. We could not review audits that were in litigation. But other than that we made our choices.

JS: So did you have your pick of any audit that had been performed by a firm registered with the Regs committee? Did the firm say, "Well, we have these audits you can work on?"

SO: No. We chose them. We chose different offices. We chose different clients of those offices. That's how it was done. It was completely, if I may say so, random except that we wanted to make sure we covered certain industries and the like.

JS: What about the survey? How did you go about choosing individuals and organizations that would fill out the survey?

SO: I just can't recall but I know it was done very systematically to get the best possible coverage and the widest, the broadest, if you will, participation.

JS: In general, the final report seemed to praise the auditing process with a couple of major exceptions. What critiques do you have of the auditing process?

SO: If you look at the quasi-peer reviews, there were some areas where they said, "In 10 percent of the cases there was inadequate follow-up or this or that." There were criticisms that needed to be addressed. But the general outlook was that in all the audits that we looked at, there was none where they said, "Whoa, this was wrong. You shouldn't have issued your opinion," or anything like that. In most cases they got good grades for doing the work, following up and reporting. We didn't say, "It's great." We just said, "It's serving a need." It can always be improved. That will always be the case. If you wanted to have a perfect audit, it would cost ten times as much as it now costs. There has to be some acceptable level of risk in this equation.

JS: One of the things the report did is call for a forensic-type field work phase in which the managers were presumed to be dishonest. Had anything like this been attempted before?

SO: No. Not as a systematic part of audits. If you had a particular issue, you might. But I was very strongly in favor of that. That was where you and your staff sat down at the outset and said, "If you were going to game the numbers, if you were going to try and hype, do this or that, how would you go about it based on our accumulated audit knowledge of this client? What area would you head into? What things would you tinker with, with a fair chance of getting away?" From that you could say, "Well, what can we do to test?"

I had a great concern throughout this process. It's what we eventually called linkage. It's discussed there several times. I had seen instances in my career where people would check out the internal controls, write them all up and answer all the questionnaires, maybe issue a memo suggesting improvement and risk management, identifying all the risks, et cetera. Then the linkage to the testing that was going to be done wasn't always established clearly, in my view. In other words, if you had a number of internal control weaknesses, were you going to hit harder in that particular area? In some cases I think it would be fair to say some auditors did what they wanted to do in terms of the substantive testing and were not sufficiently influenced by the risk profile. I hope that one of the results of this is that the link between those two processes and the work that's undertaken is very strong today.

JS: Was there any opposition to including this phase in the audit? Did anyone say, "Oh, that's not necessary," or, "We don't want that because it's not necessary?"

SO: No. Well, the typical thing would be, "It's going to cost this amount of money." Of course some companies understandably would say, "We're all good honest people. We don't do anything like that." There's a natural human resistance. But the only spoken resistance would be, "This is going to cost more money." Yet another overhead cost of regulation.

JS: What about the issue of auditor independence? What did the panel have to say about that?

SO: Well, we had two things to say – the ban and no ban. So I would say it was pretty much evenly divided except it was probably a little more on the side of no ban, but be watchful and increased involvement of the audit committee. I should say that this panel was advertised at the outset as a totally independent panel. But three members were put there by the SEC. The others were put there by the POB. Early on, people said to the SEC, "Why don't you do this project?" They said, "No. We want an independent body." But they tried very hard – I don't want to go into it – to influence the outcome of everything that we did.

Ultimately, they were not necessarily successful in that. But because members became concerned about the SEC having a pipeline into the process. I had to visit the SEC from time to time. And I remember the chief accountant asked me, "Well, how's it going?" I said, "You tell me." (Laughter.) He laughed. They tried very hard to influence the outcome, particularly of the independence issue. They wanted us to recommend a ban so they didn't have to do it.

JS: The SEC had already taken measures before this, right? The Independence Standards Board had been set up in 1997 and was already dealing with this issue. How did you feel about the Independence Standards Board?

SO: I thought it was good. I liked the idea of focusing on independence in that way and having a separate independent body looking at independence.

JS: So the audit panel conducted these quasi-peer reviews on thirty-seven different engagements and noted that in none of them had the provision of both audit and a non-audit services hurt the audit. In one quarter of the cases it had actually improved it. How did it improve it?

SO: Well, in those days most of the management services engagements involved IT. Then they're telling you, "This is what we recommend." You were learning more about the intricacies of the system which could make you a better auditor. It's one of the reasons that I was against a ban because I thought, "We could lose a lot of specialists who we need on the audits if we say, 'You can't do this work.'" Would they want to stay just to be on audits? Well, we've managed to recruit successfully a number of people who specialize in IT, but are involved in audits.

JS: Were there any kind of non-audit services that should have been banned for firms that were providing audit services?

SO: Yes, and they have been. One of them was recruiting. Some firms were acting as a recruiter for positions, typically for financial services jobs, and things like that. Basically, I like a short and simple rule. That is, you can't audit your own work. If you start with that as your basic philosophy, I think you could solve a lot of problems.

JS: The panel also looked at the overall governing structure of the accounting profession. What did the report have to say about that?

SO: We wanted to strengthen the POB and enlarge its scope. The POB is no longer. It's been replaced by the PCAOB.

JS: The peekaboo.

SO: Yes. The peekaboo, which has some of the powers. The demise of the Andersen firm has hurt this, with four firms. At least part of the PCAOB's responsibility is to make sure these four firms survive. It's a difficult situation with only four firms that are capable of handling major audits with international scope. There has been a strengthening of the mid-size firms and national firms, but I don't see one becoming comparable to the four major firms, to be honest. That's a problem when you're just trying to oversee the four.

JS: At the time that the panel was doing its work, did the SEC express an opinion on what the governance structure of the accounting industry should be?

SO: They did not hesitate to express their opinion on anything.

JS: Also within the panel compared with the board members or the panel members?

SO: Yes. We didn't always agree right at the outset on any subject. But we talked about them, discussed them, and looked at the quasi-peer reviews.

JS: Some panel members were pushing for the panel to call for a public organization to oversee the accounting industry?

SO: You mean, like, the PCAOB?

JS: Right. Was anyone within the panel pushing for that?

SO: Well, it was for strengthening the POB. It had more public members on this board and that board and a majority of public people in the Independence Standards Board. So it was moving in that direction. I don't know. It could have been but I don't remember any of us saying, "We need a totally public entity to do this."

JS: Within two years after this report was issued, the POB dissolved itself. Why do you think that the confidence in the POB declined?

SO: I'm not sure I accept that. Maybe the SEC's confidence in the POB declined. I thought they were doing the best they possibly could. We recommended that their powers and responsibilities be expanded.

JS: What did the report have to say about international auditing standards?

SO: It pretty much said, "We have to reach out to the international bodies and get them on board with some of these reforms." It's the same thing that's happened with accounting principles. It's a very difficult sell. Everyone intellectually can agree that we should have this one set of standards globally. But the water's edge is a big deterrent. In different countries the accounting principles are set with different objectives. So we couldn't get too deeply involved in that because you're talking about thirty or forty rule-making bodies around the world, all with different ideas.

JS: All you could do was note the importance of it?

SO: Yes, and suggest a greater level of cooperation.

JS: A good number of the panel's recommendations actually were implemented in one way or another. One of them was the adoption of SAS 99, consideration of fraud in the financial statement audit. Did you feel that that accurately reflected the intentions of the panel?

SO: I think so. You know, it's been ten years now. Maybe someone should take this and write up. There's a good doctoral project, what's been done and what's not been done.

JS: It sounds like a pretty good research project.

SO: It would be, yes.

JS: At the public hearings that you held on this report, and I know that you held a number of them, were there any surprises that came up?

SO: No. But there were some suggestions that we incorporated, if we felt that that was a good suggestion. I don't remember the details of each suggestion. But we did. It was not as if we were just doing these to make it look like we were interested. We really were interested. We did respond to the questions and issues that were raised by the respondents.

JS: Well, do you have any other thoughts on the panel or should we move on?

SO: No. I think it was a good group. I think it was very diligent. They were very sincere in their effort. The staff was excellent. I think we came up with a very good product. I would stand behind this report even today. I would like to find out the degree to which it has been implemented. Of course, strengthening the POB was not done, but you could say, "Well, maybe the PCAOB is covering a lot of the ground that you wanted the POB to do."

JS: It's not exactly recent but there was a GAO report published two years after the Panel's report that that looked at the implementation of the recommendations. Of course not much time had elapsed. There had been a number of other changes like the creation of the PCAOB. But it's an interesting read certainly.

Moving on, pretty soon after the panel issued this report, there was an outbreak of other scandals that were in some way or another related to accounting – WorldCom, Enron, for instance. Did these events make you rethink any of your positions about accounting?

SO: No. In other words they should have been caught with the normal audit. No. I didn't think this meant that there was something wrong with either accounting or auditing. There was obviously something wrong with the audits involved. But that didn't mean that the rules of auditing needed to be changed.

JS: In March 2002, you testified at the Senate Finance Committee about a wide variety of failures that led to the Enron collapse. How was that experience?

SO: I was really concerned about the Enron collapse. Some of the things that I heard, I couldn't believe. We went over it very carefully. I could find a lot of things that should not have been done. But in the final analysis, the reaction to that was totally beyond what was necessary. Arthur Andersen was a fine firm with a good reputation. How they allowed this to happen is beyond me. They should have taken maybe a handful of partners and take them out behind the barn. But to take down a whole firm, thousands of honest, hard-working, effective auditors, is just totally over the top. It hurt the profession to get down to four firms.

JS: So you think the profession was healthier when there were more firms?

SO: Up to a point, yes. Five or six would be fine because there's enough diversity there. If you're choosing an auditor, you have a good selection. Nowadays, most companies have relationships with at least two or three of these four firms. They have some of them doing this, some of them doing that. So they know people in each of the firms and have dealt with them. If they ever need to make a change, they know something about the culture, the firm and everything. It would be better if there were a couple more.

JS: In your testimony you reemphasized your belief that the mandatory rotation of auditing firms was not necessary?

SO: Yes. I think that could cause more problems than it solves.

JS: Around this time you also started serving on other corporate boards. You were a member of the board at Freddie Mac as well?

SO: Yes.

JS: When did you start on the Board of Directors?

SO: I don't remember. But it was not long after that that we encountered a problem, and brought in a prominent attorney, James Doty, who had been an SEC general counsel. He oversaw the audit. The conclusion was that we needed to remove about four people.

JS: How was the problem discovered? Had Andersen been their auditor before?

SO: Yes. Then Price Waterhouse replaced them. I don't know if they discovered it. I think they probably did. Then we immediately turned to Doty. What had happened was one of the senior people had changed something in their report. It should not have been changed, though it wasn't that major a change. Why he felt he needed to do that is beyond me. That led to more and more investigation. And then four people were either encouraged to leave or outright fired. The CEO at the time was also the chairman of the board. So we had to replace all these people. That's when I was asked to become the chairman. I think because I was the newest member of the board, so the least aware of what might have been going on. I don't think anyone was. That may be facetious to say that they asked me to do it because I was the newest member, but I agreed to do it for a short period. I felt that, given that there had to be significant testimony by the new CEO before Congress and so on, he should be made again chairman and CEO instead of having a separation of these two posts.

JS: This was a case where an auditing problem was discovered during a rotation of the auditing firm. Do you think that's evidence that maybe the rotation of auditing firms is a good thing?

SO: No. I have my opinions about the audits. But I don't want to go into that.

JS: That's fine. So there was a report by James Doty of Baker Botts over the summer. Then some people were pushed out. What was the SEC doing during this time? Were they involved at all?

SO: We were not subject to the SEC. That was one thing that troubled me a little. I had worked with clients, innumerable clients over my career that were under the SEC. I thought that actually strengthened your situation in the market place, the fact that you were SEC registered. But there was some, including senior management, that didn't feel we should register with the SEC. That worried me a little. I guess it made it easier or something. That was our goal right up to the time that I retired from the board, was to get registered with the SEC. It didn't happen. I mean, I left in –

JS: You left in 2008.

SO: In May.

JS: So the government regulator at the time that this was happening was the OFHEO?

SO: OFHEO. Yes.

JS: Yes, OFHEO. Did they have requirements that were similar to the SEC?

SO: I would say, "No." I mean, that's an entirely different role than regulating your financial reporting. They basically were supposed to oversee our liquidity and whether we were doing our mission and that sort of thing. But it wasn't so much that – they did come in and look at the accounts. They had people come and interview people and the like. But they only regulated two companies, Freddie and Fannie. It was kind of a weird regulatory situation. It was political to some degree. The way I heard it, the fellow who was in charge of OFHEO when I was there had been put in there under a Democratic administration.

When the problem surfaced that resulted in the firings, it was assumed that, when the Republicans came in, they would put in their men. But speculation was that they figured the Democrats put that guy in there. Let him stew. I don't know, but politics was very much a part of that scene. Then eventually they brought in a new regulator.

JS: The Federal Housing Finance Agency?

SO: No, no. OFHEO had a new guy come in. The one who was put in by the Bush administration.

JS: When you left the board in 2008, had the new oversight body already been created, the Federal Housing Financing Agency?

SO: No.

JS: So you left prior to that. Do you think that the current economic crisis has anything to do with accounting and accounting standards, or is it a business issue? What is it?

SO: No. I don't think you can attribute the current crisis to accounting standards. I mean, could accountants have prevented it? No, I don't think so. I think there's always a feeling when something goes wrong, blame the auditors and not those who were doing whatever they were doing. I went into this thinking, "If it's our national policy that everybody should own a home, then this is a good thing." Everyone would believe that if everybody owned their own home, we'd probably have a lot less crime and lot less problems. So, on the paper it looks like a good thing. At one point our CEO said, "We were mission driven." And we were.

Most of the people there believed in the mission of trying to have liquidity in the market place for mortgages and to encourage homeownership. The push from the political side to make it more and more available to the low end eventually led to these so-called affordable housing issues, and people were getting houses, and the odds of their paying back the mortgage got longer and longer.

JS: So the root of the problem is probably political?

SO: Yes, to some degree. I'm not saying it was wrong to want to put everybody in a house. But to do away with underwriting standards or pressing the underwriting standards almost to the breaking point, that was part of the problem.

JS: Well, I just wanted to finish up with a couple of final general questions. Some accountants feel that the industry needs to move towards more –

SO: It's not an industry. It's a profession.

JS: It's a profession. All right. The profession needs to move towards principle-based accounting, while others feel that auditors need very specific guidelines. Where do you fit on this scale?

SO: I am a principles-based guy with judgment being brought to bear by practitioners in the profession. Sometimes they claim that we're not rules-based, we're principles-based. I said, "How can you have 182-page principle?" For example, in leasing alone, you have several hundred pages of rules. Someone said, "Well, how would you change it?" I said, "I would just have one rule." "What's that?" "Property subject to a lease should appear on one and only one balance sheet." Start with that and work off that.

JS: A very broad-based rule.

SO: But it's fairly simple.

JS: Fair enough. So how do you see the role of the SEC?

SO: The SEC has an important role. It gives a lot of credibility to the whole financial reporting process and to the markets themselves and to the willingness of investors to invest in companies that are regulated by the SEC. I think the SEC for many years played a very good, neutral, uncontroversial role. I think of some of the lions in the SEC, especially in the accounting side. Carman Blough might have been the original chief accountant. I think of Andy Barr, of Clarence Sampson. They were well known and respected. You could go to them with a problem and come to a reasonable solution.

I think it has come more under political pressures over the years. I think that is unfortunate, that it should be viewed as totally independent and not leaning towards this or that. You see now there's three of this party and two of that party and you have split votes. It used to be they pretty much unanimously approved things even though the other Commissioners might have come from a different administration. It has to go back to being purely professional and independent and with the investor and his safety in mind.

JS: Sounds like good advice. What advice would you give to young people interested in a career in an accounting firm?

SO: Well, it's still a little unstable. I think I would say, "Go in but go in with the assumption that you'll move on after five years." You can learn an awful lot in four or five years. Now, you may say, "Well, maybe I can become a partner." I used to talk to people who were coming into the profession. I'd say, "What's your ambition?" They would say, "I want to be a partner of a firm like this." I would say, "No, no. First you want to become a C.P.A. Second, you become a senior accountant." I said, "Just take steps and then keep open your options. Maybe you'll go out and leave and do this and do that."

JS: Maybe they thought you wanted to hear them say it.

SO: Maybe they did, yes.

JS: Okay. Do you have any final thoughts before we wrap up?

SO: No. Just that I welcome the opportunity. It's been fifteen years since I've been in the firm and active in the profession. It's probably been about twenty-two years since I signed a set of accounts for an SEC registrant. So my memory isn't what it used to be. But I appreciate the opportunity. I thank you for coming here and doing it.

JS: We thank you for talking with us today.

[End of interview.]