

**Securities and Exchange Commission Historical Society**  
**Interview with Edmund Coulson**  
**Conducted on May 13, 2007, by Andrew Bailey**

**AB:** My name is Andrew Bailey. It is Sunday, May 13<sup>th</sup>, 2007, and we are in Savannah, Georgia. I'm here to interview Ed Coulson, as part of the United States Securities and Exchange Commission Historical Society Oral History Project. Ed had a successful professional career before and after the SEC, and held several significant positions at the SEC, including Chief Accountant to the Commission in the Office of the Chief Accountant.

Ed, I'm very pleased to have this opportunity to talk to you today, about your experiences as a member of the SEC staff. Perhaps we could start, or begin with a little background about your early childhood. I understand you grew up in Pennsylvania.

**EC:** Sure, Andy. And by the way, thank you, and welcome to Savannah.

**AB:** Thank you.

**EC:** I was born in a small town about thirty miles outside of Pittsburgh. My job in the morning when I was a young boy was to go out and sweep the soot off the steps, because of the coal mines and steel mills, and all that stuff. But I consider myself a blue-collar boy from Jeannette, Pennsylvania—which is really a small town. It reminds me, when I was Chief Accountant, I was giving a speech—as a new Chief Accountant I used to start out that way, because I want to let people know who I am. And I used the term 'blue-collar boy from Jeannette, Pennsylvania.' Well, after the conference, some guy came up—he's a partner with D&T, Ted Bluey—and said, "Did I hear what you said right?" And I said, "Yes." "Well, I'm from Jeannette, Pennsylvania." And it turned out, he went to school with me. And an interesting fast forward to that, is Ted Bluey eventually got intrigued by the SEC, and became Chief Accountant of the Enforcement Division. He spent about two or three years there, helping out the enforcement function.

**AB:** So you recruited from Jeannette after all that time.

**EC:** Yes, it was a good speech technique, I guess. He may have been the only other person in Jeannette.

**AB:** I note that you joined the U.S. Air Force in 1963, after graduating from high school. I understand, based on our conversations, you took full advantage of the educational opportunities the service offered, earning two years of college credit at the University of Maryland, European division. You must have been pretty ambitious at eighteen. Could you give us a little bit of insight into that time in your life?

**EC:** Sure, Andy. Actually, when I graduated from high school—and I had a pretty successful high school career—I was considering going to college, but I was economically deprived. I was trying to get a scholarship to Penn State, because that's where everybody went. It looked like I'd be going to Robert Morris; but I was having trouble with the scholarship thing, and along comes the draft. And Vietnam was just starting to heat up, in the '60s—or I guess early '60s timeframe—so I joined the Air Force to avoid the draft. I had a pretty successful military career. I went to technical school out of basic training, and I did so well in technical school, the top three persons had their choice of assignment, worldwide. And I was number one. I chose Germany. I spent three years in Germany. I also had a very interesting assignment; it was really an administrative arm of the Office of Special Investigations. I hardly ever wore military uniform, or anything; it was all plainclothes type thing; investigating people. It was my first experience, I think, with investigative type work, which actually continued throughout my whole career, as auditor, and SEC, and et cetera. Another function was quality control. The base I was on had missiles—nuclear stuff. And I was with a small unit, and basically just monitored the various people on that base—including all aspects of their personal life: If they were in any fights; if they had any alcohol problems, or money problems—any kind of thing. I designed a system to keep track of these several thousand people—a color code system. Blues were okay, yellows you had to watch a little bit, and the reds—you didn't want them anywhere near a missile. That system actually was adopted Air Force-wide. They had me write it up; I sent it in. I was actually nominated—I'm just an enlisted guy—to go to the Air Force Academy and become an officer. But that would have been something like an eight-year commitment, and I really had no interest in that, so I didn't do it. It was more fun doing what I was doing; I had a lot of friends who were officers. It was a good experience.

**AB:** Now, is this the time of the Berlin Wall, or later?

**EC:** There was still a wall. It came down after I left Germany.

**AB:** So this brings us to 1967. You leave the service and go to the University of Maryland as a psychology major.

**EC:** That's right. Another aspect of my military career is: University of Maryland had a European division, which is pretty big. I mean it's all over Asia, Europe, et cetera. And so I took advantage of that—night school, et cetera. Regular professors would come over on temporary assignments. I had about almost a year and a half of college, while I was in the service. So a natural choice would be to go back to College Park and the University of Maryland, and continue my education, which I did. My strong interest was psychology—industrial psychology: time and motion studies, that sort of thing. Actually, I credit that with my interest in observing people and things. And even when I was an accountant, you know, just kind of less talk, more looking and listening; and it was a pretty good transference of experience, but I had completed everything I needed to do to graduate with a degree in psychology. But I needed to take some electives, so I took a couple of accounting courses. Matter of fact, I took Accounting 1 and 2 together, because I was fast-forwarding through college. I went to summer school. I took this course with a fellow by the name of Roger Hermanson—Dr. Hermanson—who wrote a book—it was brand new; the first time it was ever used was in these courses. It was kind of a programmed accounting text. So with the use of that book, but more importantly—I still appreciate Dr. Hermanson: his enthusiasm and interest, and the way he talked about it, and drew people through the introductory accounting courses. I became interested in accounting. And I didn't have to, but I took more accounting electives. And then I figured out that to really become a good psychologist, even industrial psychology, you'd have to be a Ph.D. That'd been another X-number of years in school, and I was interested in work. And so I ended up staying an extra year in school, and getting my accounting degree.

**AB:** Did your parents have college degrees?

**EC:** They did not. I was probably one of the first ones to actually go to college. There's been some since then, but no, they were just hard-core, hard-working; probably lower middle class, upper lower class; people with work ethic—and I had two sisters, and I was the fortunate one.

**AB:** Accounting, particularly in that period, I think, did take many students and catapult them into the professional category in one generation.

**EC:** Yes.

**AB:** Which is quite amazing. What caused you to switch to accounting? Just that interest, and Hermanson as a mentor was sufficient?

**EC:** Basically that was all it took. That, plus the recognition that I would have to go through four more years, or more, at school, to get a decent job in psychology.

**AB:** I judge you took the CPA exam before you left school?

**EC:** I was kind of off-cycle from a normal school year, so I actually graduated in January of 1970. The normal school is September. And I took the CPA exam the very first time that I could, which was January of 1970. So it's about the same time I graduated. And I was lucky enough to pass it the first time around. I said to myself, 'I don't want to go through this again.' So I worked extra hard, got it out of the way.

**AB:** And then we're off to A.M. Pullen in 1970.

**EC:** Yes. And that was interesting too. I was probably one of the top students at Maryland; and Maryland was a pretty heavily recruited school, so to speak. All the Big Eight, at that time, were going nuts trying to get people. But A.M. Pullen—at that time, I think the ninth largest firm in the U.S.—I had just moved into D.C.—they were big in the South, and they actually had offices in New York, they were recruiting—well, it was more aggressive; and what they did, is they came in a year before I graduated, right at the time I switched to accounting; and they hired me then. “And we'll pay you full-time, full salary, now; while you're in school. All you're going to do is, if you can, come in Saturday, and at night every once in a while, and there's no commitment.” They were paying competitive salaries. More importantly, they had a number of decent clients, a good client base. And so I took it and ran. I was actually glad. I could have gone with Arthur [Andersen]. I could have went with any of the firms. But A.M. Pullen: you got a broader-based experience, quicker; more responsibility. They had public companies, as well as decent private companies; and good training, et cetera, et cetera; so I spent about five or six years there.

**AB:** We get to the SEC in 1975. You left A.M. Pullen. Was there something that sort of initiated that decision? Were you recruited by the SEC or did this just appeal to you in some way?

**EC:** Well actually, it's three reasons. One was, like I said, A.M. Pullen had some SEC-registered public companies. I was in audits of both private and public. I noticed a big difference. I mean people spent more time with the audit; the financial reporting requirements, and the rules were just different. And I was just impressed by that. I mean that's just like black and white, almost. I was also either fortunate, or unfortunate, enough to come across two cases of fraud later in my career at A.M. Pullen. One was internal fraud; one was external.

One was stealing money from the company; the comptroller devised this strange scheme to just siphon off hundreds of thousands of dollars over years. The other was where top management was kind of cooking the books, so I had those two experiences. It was a big thing. I mean everybody in the firm was going nuts. The latest—and what I said about public companies or private companies: that's when Sandy Burton was Chief Accountant at the SEC. And if you recall, he was one of the more active, aggressive Chief Accountants. He was spitting out new accounting rule left and right. I was pretty dedicated. I was anxious to study and work overtime, whatever to make sure I stay on top of things. And this one public company audit that I was on—I actually missed a couple new rules; I think it was leases and taxes, or something—it turned out they hit the street in December and January, and they were effective for that year. These were calendar companies. So I started studying that more, and I said, 'Geez, I'd rather be working for that guy, than out here trying to comply with the rules he's spitting out left and right.' And that is true. Actually, at that time, the SEC was ramping up a little bit. Although then, it was still a very, very small agency; and I was the thirtieth CPA on the staff—of the entire staff of the SEC, there were thirty CPAs. I went in, and said I wanted to see Sandy Burton. I want to work. I told him the stories. He said, 'Well you can't work for me, but you can work for the SEC.' I started in the Division of Corporation Finance. I only really expected to spend about two or three years there—actually it was a three-year commitment—so three years, and then I'd take that experience, plus the A.M. Pullen experience, and go out and get a real job. But it didn't work that way. Actually, when you go there you have something like a three-year commitment. It's not formal, but if you give your word; and I give my word, and I keep it.

Every time you get promoted, there's a three-year commitment, the same type of deal. And I got promoted five times.

**AB:** You started as a branch accountant, which I think you described as the lowest position possible. How many branch accountants were there, at the time?

**EC:** Well again, like I said, I was the thirtieth. There weren't many branches, and there weren't many accountants; like one to each branch, that handled a whole bunch of companies. When I say I start at the lowest, I start at the lowest. The normal starting level at the SEC for accountant CPAs, at the time, was GS-13. Well I didn't quite qualify for that, so I started at GS-12. And quickly got promoted to GS-13, and later 14, 15, SES-1, SES-4—or whatever it was.

**AB:** It must have given you a very fast track into some of the issues that Corporation Finance and the SEC were dealing with. I'd like to hear about some of those.

**EC:** Well, Corp Fin—and a branch accountant—to me, is still probably the most important job at the SEC. Chief Accountant gets a lot of visibility and publicity, as you know, but they're the closest to the company. You get to know the industry, the company; it's kind of the first line of defense outside the auditing profession. The review and comment process is very, very important. It certainly has evolved over time. But back then, I used to study the filings. Most just look at the financial statements; I looked through the entire filing, from front to back; and I used to give speeches about this: it seemed to me that sometimes in a public company, there was a husband and wife team. The husband did the financial statements, and the wife did the MD&A and the text; and like many husbands and wives, they didn't communicate very well. I mean if something's like black and white—the MD&A, management discussion and analysis, was—didn't really track what was in the financial statements, and vice versa. It was a good way to get a lot of comments when you were reviewing your filing.

**AB:** Did you come across any financial reporting frauds, or find that you had identified problems that subsequently were shown to be at least material errors in the financial report?

**EC:** Yes there were a few of them. And I actually got rapidly identified as somebody who—probably by mistake—could find these things. I was very fast. I will not mention names;

but one big company, in their 10-Q—quarterly filing—you know, the SEC had this rule; if they didn't comply with the rules, they'd give them a comment. Well I don't know if they still have this rule, but it said you had to have a commitments and contingencies line item in your financial statement. And there was no requirement to cross-reference to notes or anything, but you just had to have it there. So one very big Fortune 10 company did not have it. So I gave them the comment. And I didn't know you could waive comments, nobody had ever told me that. So I said they had to amend it. So I had half the free world come down on me. These people visited me—you know, the CFO. And I held my ground: 'Sorry, you've got to amend it.' And it turns out—and this might have been just a coincidence, but this company—and it was widely reported in the press—at about that same time, disclosed a massive—it's called contingency, that threatened, really, the company stock, which just went down. Now that actually got resolved, the company's still around, I believe. But that was one interesting experience. Because I was considered to be fairly good, I guess. Also, during that time—'76, I believe—the SEC was looking into New York City: their bond problems. They had a big bond fiasco, and they needed bodies to do this investigation. I mean half the SEC was up in New York. And so it went to Corp Fin, and I was at Corp Fin; and they said, 'I need a couple good people.' It turned out I was one of them. So all of a sudden, I'm on a plane up there; working with Stanley Sporkin, some of these legends.

There was a problem. It's still uncertain, I believe, what authority the SEC has over municipal securities. It's a little bit more nebulous and indirect than it does public companies. And so at that time, it was even worse, I think. I wish the SEC had direct authority, because now that I'm retired, I have a lot of municipal bonds. Apparently New York was a little reluctant to let the SEC come in and look at all the stuff. Anyhow, that was a couple good weeks of experience with the Enforcement Division. End up spending a lot of time studying New York City pension plan—my God; and writing—there was a big eight hundred-page report on the investigation of New York City by the SEC. I wrote the pension appendix, which I think was one or two pages—in two weeks.

**AB:** But you met some interesting people as well.

**EC:** Yes.

**AB:** How old were you at that point?

**EC:** I was pretty young. I had to be thirty, or something.

**AB:** Well, it must have been exciting. Now you told me, at one point in one of our conversations, that you consider the branch accountants to be, still, the most important members of the SEC staff. Why is that?

**EC:** Because a good branch accountant can catch things. And they have a lot of technology and tools now to assist them, but that's really the first line of defense. And that external review of a company's SEC filings is still, I think, one of the more unique things to the U.S. regulatory system. You have somebody really looking and challenging. And a good example—and I hate to use one everybody has really referred to before—is Enron. If somebody had looked at Enron—and I understand it's public knowledge that for some reason, that wasn't picked for review. But I went back and looked at it after the fact, and would have been easy to challenge a number of things in that filing, that might have brought this stuff to light a little bit earlier.

**AB:** This always raises in my mind a question that we really hadn't talked about at all, and that is: How is that the branch accountant, with public information, is able to ferret these things out, but they manage to get to the SEC with a filing? How come the first line of defense didn't work?

**EC:** I can't answer that. But things have changed. We might get back into that a little bit later.

**AB:** You went to the office of the Chief Accountant in—was it '77 or '78—on a special assignment from Corp Fin—apparently there was an intern program. You were only expected to be there a year. During that period, I understand you had a special assignment. Would you like to give us a little insight into the special assignment? And then maybe we can transition into how you managed to stay in OCA.

**EC:** Okay. Actually, that was—at the time—'77—of the Moss/Metcalf hearings, and Eagleton, Dingell, et cetera; and I mean the accounting profession was really under a lot of scrutiny. And the SEC was too. They needed help to prepare some reports that were promised to Congress, promised in Congressional hearings by the SEC. And so, something called a Staff Accounting Fellowship program was set up; and that was six-month assignments to



the Office of the Chief Accountant from Corp Fin. And it was basically just they needed bodies. So I was one of—I think I was the first—no, there were two of us—first branch accountants to participate in that program, and I pretty much exclusively for six-months worked around-the-clock, including the middle of the night, on these reports to Congress; which are, I think, in the Historical Society archives. It's this thick. And because I did fairly well with those assignments, I was asked to stay on in the Chief Accountant's Office.

**AB:** Stop just a moment and reflect on the Moss/Metcalf activities, other than your personal participation. Looking back, do you think they had much impact?

**EC:** It was a series of evolutions of people tightening up: both the SEC, the accounting profession, the corporate industry, securities—financial world. But if you go back and re-read those things: it's the same issues that were later addressed—and almost the same issues in Sarbanes-Oxley. It's the same thing; things don't seem to change. Things didn't go far enough then, or they thought they could be worked out. And I don't know.

**AB:** I remember, as a young faculty member, going through that thick binder you were talking about, and looking at it. And when I look back, I don't know exactly what changed, that we might have avoided some of the current problems. The Division of Corporation Finance expected you to return after that assignment, but you did not; you stayed with OCA. What was your first assignment there? And maybe you could talk us through your career in OCA to the Chief Accountant's position. I have a long list of things I know you were involved in—all major issues of the time. I'd like very much to hear about those.

**EC:** Well, started out in OCA—again, like I said, I never went back to Corp Fin; and they weren't very happy about that. But, as regular old staff accountant—and became Assistant Chief Accountant, Deputy Chief Accountant, then Chief Accountant. It went by very, very fast. I should mention: when I was in Corp Fin, I was fortunate enough to work very closely with a guy by the name of Charlie Oglebay; he was the SEC staff to the banking industry; and banking is—probably still is, but was certainly then—one of the biggest number of registrants were banks and banking-type entities. Charlie was retiring, so I became, quote, the SEC's banking expert. So I worked on bank stuff. And when I was in Chief Accountant's office, I continued to specialize in banking issues; which made you very popular with the banks: big, little and medium. But I had a good reputation for working hard, so I worked on the first staff accounting bulletin, and many others—whole range of

different kinds of issues, like push-down accounting, divestitures, split-ups, spin-offs, carve-outs. I was primarily responsible for the efforts of the SEC at codifying the staff accounting bulletins and the financial reporting releases. At first—and again, I keep hearing it today—Things were too complex. There’s too many different things; they’re all over the place.’ So we decided to put them all in one publication, and kind of, quote, codify them; and it was one of the feeble attempts at simplification of the rules.

**AB:** You created the Staff Accountant Bulletins (SABs).

**EC:** The very first one. And we also created the first Financial Reporting Release. Prior to that time, there were AARs, Accounting and Auditing Releases; and they finally realized that you can’t just focus on accounting and auditing; it’s a broader picture. Just like the rest of the world today; it’s financial reporting, so we created a Financial Reporting Release—one; now they’re up to Lord knows how many—to recognize a broader range of topics that would be dealt with: MD&A, et cetera; stuff related to, but outside, the financial statements.

**AB:** Now a staff accounting bulletin is not a rule.

**EC:** But you better comply with it.

**AB:** Yes. I thought I’d just throw that in, because I know that during my time there—it was interesting: the SABs are not rules; they are interpretations, but pretty much you have to adhere to them.

**EC:** Yes.

**AB:** Now you said you specialized in banks. The S&L crisis shows up in here someplace.

**EC:** That was really a big issue, with many, many hearings—lot of problems with the S&Ls. Absolutely incredible situation, where your interest rate deregulation and financial structure out there with the S&Ls, couldn’t deal with it; so everybody got into real estate. But we just spent tons of time working with our sister agencies, and Federal Home Loan Bank Board, and FSLIC, and Congress. There were some real, real, real issues there, real problems. Now most of the S&Ls, as you know, back then did not report to the SEC; there had this special niche in the legislation that caused them to report their filings and all that stuff to the

Federal Home Loan Bank Board. Only if they formed a holding company would they come to the SEC. Very few were holding companies. But those that were, we ended up dealing with; and of course they needed capital, so more and more holding companies were being formed. And more of these S&Ls—sludge—were coming to the SEC.

**AB:** Didn't the Congress get involved with essentially legislating some accounting that managed to keep them afloat for a little while? Was the SEC, in any way, involved with that—opposing or proposing it?

**EC:** Yes, there were some issues there; and the SEC was consulted and involved. It was a very, very difficult issue—very political. As I said, the bank board would have had the most direct authority there, and they were proposing a rule to mark to market—which is actually a good idea, I guess—the S&L portfolio; but to defer the loss over like thirty or forty or fifty, sixty years; I forget. It was this amazing thing. And course, the SEC didn't agree with that. And so it was this big political thing.

**AB:** I'm going to go back to something a little more like the SABs. You were also involved with the formation of EITF, I believe—in '84.

**EC:** Yes, that was formed when I was there, and I got involved with that; and of course, stayed involved throughout my career at the SEC—very, very important function; interesting function, where you have all the top technical people from all the firms, with FASB involvement, SEC involvement—and a whole range of interesting issues. I think the SEC did try to support that by giving them the first dibs, so to speak—to try to deal with some of these issues; and if not, then of course you'd always have the SAB, or financial reporting release, or just—what the SEC occasionally can do: just an edict; just say it in speeches.

**AB:** Now, looking back, and looking at how the EITF has functioned almost at times as sort of a mini-FASB, it seemed to set rules for certain accounting issues. Do you think it was a net positive contribution? That it really has done its job, or—or do you see problems—things that might need consideration?

**EC:** You mean to have an EITF type function?

**AB:** Yes, through that period. Right.

**EC:** I thought it was a net benefit. Again, you had some good people there. You had the SEC and FASB oversight, so couldn't go too far off the reservation. And there were some frustrations; but I think, generally, they did a good job. There's some tough issues there. The SEC didn't even really want to deal with some of these things. I mean you could hardly pronounce them, let alone figure out how to account for them. But they did a pretty good job, I think.

**AB:** I know you were interested in the globalization issue at that time. Actually, you were ahead of your time, I suppose, in even being interested in the issue in the United States. But today, of course, it's a big issue, and it looks like we're moving well forward on the matter. How did this all get started with you?

**EC:** Trying to think of a time frame now: but slowly but surely, creeping up into the late '80s, there was a tremendous increase in, first of all, the number of foreign companies that filed with the SEC. But more important then, politically and otherwise, was the absolute tremendous growth of the markets outside the U.S.—London, Japan, Germany. And interestingly, one of the cited reasons for this growth in capital raising was that the SEC's rules were too tough, the accounting particularly. All securities lawyers, everybody mentioned accounting. So we spent a tremendous amount of time dealing with foreign counterparts in the regulatory area, foreign companies, the exchanges—the New York Stock Exchange, et cetera. Spent a lot of time overseas, trying to deal with that phenomena of globalization—which they still are doing. The SEC issued a concept release, asking all kind of questions about international accounting standards, and all that stuff—very similar to the release the SEC issued just two or three weeks ago, or maybe a month ago—same type of questions. We started working with the IASC—it's obviously a different name now, but they wanted to become more of a player; and we said, 'Well you tighten up your standards, and get rid of all the options, and we'll consider you.' All of a sudden, they started doing it. And so we had to work with them. It's just an amazing issue, with all the different people involved and it's still not resolved. And one of the big issues—you just fast-forward here. Globalization was identified back then—and this was in the '80s—and identified today; and that is: if you have a good set of international standards—and that's both regulatory and accounting—why do you need a FASB? I mean if it's good enough for Mercedes Benz, it's good enough for General Motors. And so it'll be interesting to see how it's resolved; because it's the same issue—back in the late '80s, it was on the table—very big concern.

**AB:** I was at the SEC when there was an increased interest and also a concept release.

**EC:** There's been at least three or so.

**AB:** Yes. And one of the issues that arose at that time was that even if we had very common accounting standards on which everybody could agree, and we didn't have the argument about what to do with the particular national level organizations like the FASB—what about the fact that the U.S. Securities and Exchange Commission seems to be somewhat unique in the level of effort and resources they put into making sure that what does come in does, in fact, conform to those standards? Other countries don't seem to have that kind of regulatory organization. As you went through this process yourself, did you encounter that same thing?

**EC:** Yes. I think some of the foreign regulators—or non-U.S., I should say—have been beefing up. They're trying to adopt some of the concepts and techniques, and whatever, of the U.S. regulatory structure. But still, the SEC-type structures are vastly—and I hate to use the word superior—but I mean just, it's got more. And so that's an issue to be reckoned with. It's one thing to have good standards, but if you don't have somebody—or the same quality of external review—that's both auditing and regulatory—then you have a different situation. And so that's going to be still an issue on the table. I think that's what's going to win the day, frankly.

**AB:** What is your opinion? Do you think that it will come out that, say, IFRS will become the standard, and then we will adopt it in the U.S.? Do you think that's foreseeable?

**EC:** I think it's foreseeable. And there'll still be a need for a FASB-type entity to participate in international, but also to deal with the stuff that's homegrown. We still have the biggest, most complex market in the world; and so there's going to be issues that need to be dealt with. But it'll be a different way of doing business.

**AB:** The other side of this picture is the auditing standards themselves. The auditing profession gets in, performs the audit. Then we have the regulatory groups in these various nations and the international auditing standards developments that have come along in recent years. Do you see that as an issue as well? The firms have largely—the big ones, at least, let's say the

Global Six today - have all developed international networks. There are as a result issues of common quality and independence across those networks that are still being worked out. Do you see how all of this might unfold in the next few years?

**EC:** It's the same issue as accounting standards: independence, ethics, auditing; they all—you still have a lot of pressure and need for uniform standards; but also uniform application and enforcement, and regulation. And so they're all really together. That's a tough one; because, culturally, people are different. I think the firms do recognize that; they are trying to deal with it, and things are tightening up. But that's going to be a tough nut.

**AB:** Did you see that during your career? I know by 2004, everybody was concerned about the international markets, and the international auditing standards and independence standards. Did you see that tightening-up coming, through Ernst & Young, and the other firms' systems?

**EC:** Absolutely. And actually, I was just at a meeting of the Ernst & Young retired partners in Orlando; and that was a big theme of the whole meeting—talking about the efforts at globalization and convergence. Tremendous amount of money and thought and effort in those areas, because they realize it's a global market.

**AB:** Do you think the profession is interested in seeing common standards on both auditing and financial reporting, and common regulatory processes? Our legal environment seems to be quite different than the legal environment in some of the other countries, where we get contingent fees and class action suits.

**EC:** I know what you mean. We definitely have different litigation environments. And the firms understand that. And that's been a blockade, because they put up Chinese walls. But I think people are starting to recognize—and I've talked to people at a very, very high policy level, that that's just tough. Because you just can't operate as separate blocks; it's got to be one firm worldwide; the clients are multi-national, they're not all U.S. And so you've just got to bite the bullet.

**AB:** So firms have to just basically get in there and develop common quality and independent standards—

**EC:** Yes. And cooperative initiatives.

**AB:** Actually, you dealt with some interesting independence issues when you were at the SEC. I think you mentioned one where you had to deal with the issue of the firms coming to talk to you about prime sub-contract type arrangements with clients?

**EC:** Yes I'll never forget that one, because that's when I first became Chief Accountant. Clarence Sampson, my predecessor—and by the way, I was the seventh Chief Accountant; I always considered myself lucky—and youngest also—but the very first issue was, as Clarence Sampson was leaving, the firms came in with a formal petition to have the Commission interpret the rules to allow certain types of business relationships with audit clients. As I said, what do I need—the first thing—you know I can't win. If I say yes, then you're a friend of the profession, and you're not a regulator. If I say no—I think there was a second petition filed after the first one was kind of reluctantly turned down—and staff's recommendation not to allow these things for various reasons. But another petition filed, proposing some different techniques to deal with it; and I don't think it ever got acted on. But a lot of the commissioners were favorably inclined to allow these types of things to occur.

**AB:** By the time you left, in '91, the firms had substantially increased their consulting practices. So I suppose this was part of what was embedded in these questions: the nature of the relationship they could have with a client, as they expanded the amount of work they did with the client that wasn't particularly in audit, or other kind of assurance activity.

**EC:** Yes this really came out of the consulting business growth, and the perceived inhibition that was caused by not being able to deal with audit clients—a big piece of the market was cut out for some of the really big firms. And as you know, the consulting divisions continued to grow—massive—and probably one of the on-balance good things that have happened is eventually most all got put away—sold off, or spun off, IPOed. I was happy to see it. I think Ernst & Young was the first one to divest itself of the big ticket consulting business, so to speak. I think on-balance that's good. They basically couldn't coexist.

**AB:** Tell me something else about your career in OCA—some of the more exciting things that you did.

**EC:** Well I don't know about exciting, but let me just mention a couple things. I was promoted to Deputy Chief Accountant, which was the only one—I think today they have three—you were one. And had to be hired by the Chairman, John Shad, the head of Merrill Lynch, who—he was a great guy. I really liked him. But anyhow, he interviewed me, and he was looking through my stuff, and says, “Wait a minute. How come you don't have an advanced degree—masters, graduate degree?” And I said, “I do. My degree's in OJT, and I got an A-plus.” That was the end of the interview. I was in. And Chief Accountant Clarence Sampson retired, and I was the last homegrown chief accountant; all the others were from outside. But I had full trepidation; I was barely forty years old—I think I was thirty-nine, or something—but supported by all segments of the financial community, including academic. And David Ruder, who I really appreciate as a really solid securities lawyer; did a great job as Chairman; but he had to hire me, and his main point was we needed to have more enforcement presence—because after all, the SEC's an enforcement agency. I used to give a lot of speeches, talking about that, because I think very few accountants really appreciate it, that what they do is help enforce the securities laws. These are laws. Accounting's not just a science; it's a law for public companies. So our motto back then—and I used to go around the country talking about it—‘We're going to be tough, but fair.’ And maybe I shouldn't say this, but I think after I left, things got tough, but not fair. But, interestingly, just a couple days ago, I ran into Conrad Hewitt, who's the current Chief Accountant at the SEC; and in a quick conversation, we readily both agreed that being Chief Accountant's like drinking Colt 45 in that old commercial—you know, a unique experience. And it truly was. I got involved in a whole bunch of issues. We mentioned globalization. Another one was the foreign loan crisis. That was the tip of the iceberg, or at least ties into globalization; because here's where all the major banks around the world had exposure to MB&A—Mexico, Brazil and Argentina loans, that obviously were—were a problem; and the key issues were how to deal with it. They were entering the transactions to get them off the books, and when do you have to mark them down, et cetera. And I spent a lot of time overseas. The Treasury Department, the State Department—everybody got involved in this one—let alone the Hill. The Federal Reserve Board attended meetings of all my counterparts, and from all the banking agencies around the world, and all the security regulators—actually not them all, just me. They cared about the SEC at that point. But we realized we had to come up with a common solution, because there was too many banks offshore; there were big massive banks—still are—that had the same problem, and you couldn't treat U.S. banks differently. Boy, I lost a few pounds on that one; spent a lot of time on that stuff.



You may remember internal control. The Treadway Commission—remember that?—proposed reporting on internal control, way back when? Was that the mid '70s, or something? Actually, mid '80s. But we tried to do it back then, and couldn't do it. Eventually it got done. Now they're trying to tinker down with it a bit to—hope not. The other quick issue I dealt with was mark to market accounting under Richard Breeden, another Chairman, who was tremendous in this because of his work with the S&L crisis, working for the White House. And so that was a tremendous experience. Only other thing I'd mentioned, Andy, is—it was with some pleasure I noticed that two people who worked for me at the SEC, subsequently became Chief Accountants: Lynn Turner and Bob Herdman. So that was an interesting experience. But I left at the end of my last three-year commitment. Exactly. I mean it was exactly—went to work in January of '75, left in January of '91—five three-year commitments. Plus, I must say, I had two boys who were both going to Ivy League schools; and on a government salary, no matter how high you are, that's hard to do.

**AB:** I'm going to go back—before we make the next transition—you mentioned the tinkering with 404, which is the SEC's part of the internal control issue and AS-2, which is the PCAOB's part. What's your take on that one? Do you see the integrated audit that they put in place as working, as conceptually okay, but needing adaptation to make it practically workable?

**EC:** I'm a little bit worried about adaptation, because if you end up watering it down, and not having the auditors do enough work, you're going to end up with problems. You're going to have double problems. We talked about the litigation environment—it just costs to get good internal control reporting. Now they had the banking model; they could follow that, that appears to work fairly well—although that's a highly-regulated industry, so it's a little bit different, but. So I think you need to be very careful with adaptation, so to speak. Don't try to get it on the cheap.

**AB:** I was interested in asking about that one, because you were in at the front end of the internal control reporting issue. We now have internal control reporting on the books, but we do have a lot of push back on it. And the other one that's coming, which you were in on the front end of as well, is the fair value reporting. The FASB's proposal on that is fairly

expansive compared to what you were talking about at the time. Any views on how that might play out as well? Is it workable?

**EC:** I have reservations about that. You can only go so far. It's weird to have part of your balance fair valued, and not others; but at the same time, worked a lot with valuation people over time, and I just don't think we're there yet. Maybe one of these days.

**AB:** It's interesting that you dealt with all the critical issues that seem to be on the table today, and you dealt with them early. And we're still struggling with them.

**EC:** It is amazing. Some things just don't change.

**AB:** Now in 1991 you left the SEC. You mentioned your boys were in Ivy League schools, and that you didn't make that much in government work. You went to Ernst & Young, and I note that you had a fair number of duties and responsibilities there that spanned many of the same issues that you had dealt with at the SEC. If you'd like to spend a few minutes just giving us an idea of your sort of post-SEC time, I'm sure people would be interested in what you found it to be like on the other side of the table.

**EC:** I went to E&Y's national office in New York. And frankly, I'm not sure E&Y knew what to do with me. What do you do with a chief accountant? I hadn't had any practical audit experience for quite a while. So their idea was really to get me involved in some of their firm policy making, publications, be on some committees. But when I got to the Ernst & Young—put me in office; and the phone started ringing.

It was clients—people, client handlers, audit partners—all over the place—constant. And what I was really impressed with, and still am—and I don't think people appreciate this too much—is that almost all these calls were people looking for help; they were dealing with a client who wanted a certain kind of accounting, and they needed some analysis and input, and ammunition to say no—how that didn't feel right; it didn't look right; it didn't smell right. And so I became, really, a technical consultant guy, probably twenty hours a day, for the first five years or something. Sometimes had to deal with the clients directly. I had more chargeable time than a typical audit partner. And I found that just to be very impressive, because in all cases, they were companies looking for good solutions to

problems they had, or our people looking for help in dealing with an increasingly complex society. There was a lot of international work, and a lot of foreign IPOs—which continue, although I note with interest that London had the largest capital-raising last year. So, see it's interesting. I did revenue recognition, which was a big issue at the SEC. I mean there were all those kind of questions. And then I became an M&A specialist—mergers and acquisitions. Every single big deal that occurred during that timeframe in the mid '90s—which was pretty hot and heavy—I was involved in. I worked with all the other firms: financial industry, securities lawyers, et cetera. So it was interesting. As time evolved though, I got involved in some other stuff. Probably the biggest one was independence—all the new rules that were coming out. But like I said, the sale of consulting by the firms—that took up increasingly amounts—increasing amounts of time, as time went on. And that's one area I wish the SEC would get into and simplify. Right now there's illogic to it; it doesn't make sense, but they're rules, you've got to follow them. If they could come up with a logical set—hopefully of global standards—that were fairly easy to understand and follow, I think everybody would be a lot better off. They have some strange rules.

**AB:** Do you think principles-based rules in accounting, auditing and independence are workable generally—or maybe specifically in the United States, where we face a litigation system that seems to say, 'Well show me the rule'?

**EC:** Well it's changing a bit, but. But you can't just have principles, as most people understand that; you've got to have principles plus. But it ought to be principles based. It might need some additional elaboration, and definitely would need some additional elaboration, and a few rules sprinkled in. But nonetheless, you've had at least a ten commandments—I can understand those. And if you understand commandment three, then the rules underneath it would be logically tied to three. And so distant relationships and issues wouldn't affect independence; but others would, and people would concentrate on those. We'd be better off, I think.

**AB:** You enjoyed your time at Ernst & Young, I take it?

**EC:** It went very fast. '91, and all of a sudden then it's 2004, and I'm eligible for retirement early, fully vested; and I took it.

**AB:** Well, looks like a good retirement.

- EC:** Not bad. I'm learning all kind of new stuff post-retirement—great. And I'm still young enough to go back to work.
- AB:** Do you sense a change in the SEC over this period of time? Do you see any trends within the SEC from the time you began to today? Are they performing the same role essentially, but just more of it, with more people? Or have they altered their role in some way, as you see it?
- EC:** Well it certainly got bigger: more technology, more people. And that's probably deserved. I mean the world's bigger, more complex; so you need those additional people, you need more technology. But some things have not changed at all: the basic functions, the oversight review and comment, et cetera. There's more of a direct regulatory role now with Sarbanes-Oxley. So that imposes more responsibility. But when you get right down to it—and it goes back to the emphasis on the branch accountant—that hasn't changed. I mean there's no robots or technology that's going to change the ability of somebody to look at a filing externally, and challenge it and review it. That keeps people on their toes.
- AB:** This wasn't on our list, but let me ask anyway: the current Chairman, Cox, is very strong on XBRL, and the development of that as a filing mechanism. And I think there is some thought that—not robots, but expert systems, so to speak, might contribute to the ability of the branch accountant to do an even better job.
- EC:** It might. I must admit I haven't fully analyzed the pros and cons of that. But there's no panacea out there. And if you have a good branch accountant you don't need it.
- AB:** Well, post-Enron, we have the FASB, and now we have the PCAOB. We're a much more regulated industry. In addition, I guess everybody's refocused on the financial statements—both management and the auditor. Do you have any kind of comments that you might like to make about the profession, or our business in general in the post-Enron era?
- EC:** Just a couple quick things. Obviously what happened—Sarbanes-Oxley was hard to stop; it was a train. And on-balance, I think it's been good. I've dealt with the firms, have talked to people in the firms today, and I think it's caused a re-focus that's needed, and good. I

think you're going to see a much better profession; you're going to have less risk liability-wise, because they're going to do better work. They have to. You have somebody—a PCAOB—I know some of the people there personally; they'll come in and challenge and look and review. I mean you're right there. Things have just tightened up substantially. There's more of refocus on the audit function, and the need for good auditing, and the importance in society, et cetera, et cetera. On balance, it's been good. It's a shame—lots and lots of people got hurt as a result of some of these fiascos, but that happened, something's got to change; and it has.

**AB:** I have this feeling that somehow we lost faith in the audit, and maybe we found out, through this process, that it really is important.

**EC:** That is correct. That's correct.

**AB:** Well is there anything else you'd like to add—anything at all?

**EC:** I think that's it, Andy. I think we covered quite a bit. And I appreciate the time I spent with you.

**AB:** It's been a pleasure talking to you, Ed. Your interview will become a part of the SEC Historical Society Oral History Project archives. I read a lot of history personally; and I think we're often, as Americans, not terribly interested in our history; we're sort of go-go to the next problem, and solve that problem. But I think the Society has a good program here, and I think your contribution to it will be appreciated. Thank you very much.

**EC:** Thank you.

[End of Interview]