BROADCAST TRANSCRIPT
Deloitte Fireside Chat VI: The SEC's Role in Accounting Standards Setting
October 18, 2011

MARK BEASLEY: Good afternoon. Welcome to today's Deloitte Fireside Chat, looking at the SEC's role in accounting standards setting. We are pleased that you could join us for this broadcast live on www.sechistorical.org. I am Mark Beasley, Deloitte Professor of Enterprise Risk Management, and Director of the ERM Initiative in the Poole College of Management at North Carolina State University based in Raleigh, North Carolina and I will be serving as your moderator for today's program.

The Deloitte Fireside Chats are made possible through a partnership between Deloitte LLP and the SEC Historical Society. Deloitte is the brand under which tens of thousands of dedicated professionals and independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management and tax services to selected clients.

Through its unique museum and archive at www.sechistorical.org, the SEC Historical Society shares, preserves and advances knowledge on the history of financial regulation from the 20th century to the present. The virtual museum and archive is free and accessible worldwide at all times and currently welcomes more than 300,000 visitors annually. Both the museum and the Society are independent of and separate from the United States Securities and Exchange Commission and receive no funding from the public sector. The Society is grateful for the sustained and generous support of Deloitte LLP in making the Deloitte Fireside Chats possible.

The Deloitte Fireside Chats debuted in 2009 as interactive programs on current issues in financial regulation that would be of interest to the accounting and auditing professions. Past programs have addressed the role of professional judgment, principles versus rules-based accounting and auditing standards, regulation in the audit profession, and responsibility for preventing and detecting financial reporting fraud. Earlier this month, Professor Mark Peecher, at the University of Illinois at Champaign, led a discussion on the role of the auditor. All of these programs can be accessed at any time in the Deloitte Fireside Chats section under Programs in the virtual museum and archive.

Today, I am very pleased to have with me here to look at the SEC's role in accounting standards setting three panelists. Loretta Cangialosi, Senior Vice-President and Controller of Pfizer Inc, is joining us, along with Bob Kueppers, who is the Deputy CEO of Deloitte and a Trustee and President-Elect of the SEC Historical Society, and Art Wyatt, who is a retired partner from Arthur Andersen & Company, a former professor at the University of Illinois at Champaign, as well as a former member of the AICPA's Accounting Standards Executive Committee and the FASB.

Before we begin our discussion, I would like to state that the views of the presenters are their own and do not reflect those of Deloitte LLP or of the SEC Historical Society. The Society selected me to moderate the program. I have worked with the presenters to determine the topics and questions that will guide the content of our discussion.

We have actually centered our discussion today around three themes that we plan to cover, and let me briefly walk through the three themes. The first we are going to touch on is the historical perspective of the SEC's role in accounting standards setting. After that discussion, we are going to move into a more focused discussion on the factors, things that have influenced that role, just to help us sort some of the influencers to that process. We want to conclude the session today focused on the role of the SEC and accounting standards now in 2011 and then beyond.

So, let's begin by focusing on theme number one, the historical look at the SEC's role in accounting standards setting. I am a professor and so one of my jobs is to introduce students who are new to the profession to the accounting world, but particularly standards in accounting. It is interesting, as I think about it, as we look at this particular topic of the SEC's role in accounting standards. Since the 1930s, the SEC has delegated its authority for standards setting pretty much to the private sector. So if you are in my introductory course in accounting, how would you give someone who is new to the profession a description of what this delegation looks like? Bob, let me start with you on that.

ROBERT KUEPPERS: Sure, Mark, happy to do it. One way I think about this is, as we sit here today, now a 70-plus year old public-private partnership in many ways because clearly by statute, the authority to define accounting terms, to determine the form and content of financial statements filed with the Commission, that clearly has been delegated by Congress from the beginning of the SEC in the early 1930s. But historically and starting particularly in 1938 with the Accounting Series Release Number 4, the Commission has recognized that the private sector, in particular the accounting profession, has expertise, synergy and resources that, without abdicating its responsibilities, has allowed or permitted those standards to be set by the private sector. Taking it a little more current, of course, we are all familiar with the Financial Accounting Standards Board, the FASB, which has actually been in business since I began the profession in the mid-'70's, 1973. At that time, the SEC reaffirmed its delegation of authority, again without abdicating its responsibilities in this area, to the FASB and continued its policy of looking to the private sector for leadership and establishing and improving accounting principles.

One thing that as a practical matter is important to realize is that the SEC's staff in administering securities laws has to make decisions on narrow issues all the time. What I love about the ASR-150 from December 1973, it's about a page and a half, but it has everything you need to know. At the end it says, it must be recognized that when we administer the federal securities laws, we being the SEC and when we review filings under the acts, the Commission staff will continue as it has in the past to take whatever action it needs on a day-to-day bases to make individual decisions to resolve specific problems of accounting reporting. Because we recall that the SEC is all about making certain markets continue to function. So the SEC itself has a substantial day-to-day authority but the longer term evolution of accounting standards is done under its guidance with that delegated authority.

MARK BEASLEY: Loretta, is there anything that you would add, if you are standing in my job of my role as an accounting educator, that would help give us some perspective of what that looks like?

LORETTA CANGIALOSI: I would say certainly they don't abdicate any authority; they delegate but with some oversight. I think it's important and I know Art will get into this but to recognize that when the SEC was formed, the folks at the SEC realized that they were not experts in accounting, nor did they want to necessarily be experts and promulgate accounting principles. So they needed to work in partnership with the auditors and the accountants to come up with this because they basically had a budget of about $300,000 when they started, so not a lot to hire the staff like today where they have more staff who are accountants. But as far as the delegation they do have different observations that they make from time to time. They do work closely with the emerging issues task force, whether it's been at the very beginning with the committee on accounting procedure, which was the group in the 1930s moved to the Accounting Principles Board, then the Financial Accounting Standards Board and perhaps someday it will be the international accounting standards board. But all of these, they have delegated their authority to, but watched over and participated and given guidance. So that's what I would add to that.

MARK BEASLEY: Art, you are a student of history. Can you give us a little historical context of how this sort of delegation agreement came about back in the 1930s when the SEC was first created?

ARTHUR WYATT: I will try. I think your students would grasp better what went on if they related the issues to some of the current issues in our political scene. At the time we are talking, the 2012 political campaign is heating up. One of the overriding issues is, what should the role of government be and how much intervention should government have into the private sector?

In the 1930s, this issue came into focus because of the effects of the stock market crash and the blame was placed in large part on those scoundrels who misused the financial statements and did mislead investors. At the time the Commission was created, it had five Commissioners as it does now and the party that had the White House control had three from his party and the minority party had two representatives. So the Commission was comprised of three Democrats and two Republicans. As Loretta said, and Bob as well, the people on the Commission were not accountants; most of them were lawyers, some businessmen. They recognized that with the resources they had and the expertise they had, maybe there were others in the society better equipped to deal with the actual development of standards. So, on the one hand you had those who wanted the government to control it and on the other hand you had those who wanted the private sector to have control.

The interesting thing to me is, the Chairman of the Commission at the time, Joseph P. Kennedy, who was famous in his own right but later became famous as the father of Jack Kennedy and Bobby Kennedy and Teddy Kennedy, voted with the two Republicans to keep the standards setting in the private sector. That was a crucial decision not unlike some of the decisions that we are likely to see faced in the coming months. ASR-150 was maybe the SEC's most important accounting series release; as Bob indicated, it continued the support of the SEC for the private sector with the recognition that SEC oversight was crucial to the process. And that has continued down to this day.

MARK BEASLEY: With ASR-150, did they take in a totally different kind of direction or do you think it is on a pretty consistent path?

ARTHUR WYATT: I think it continued the path. I don't think there was any break at that time in the pattern that had been evolving. There was a need for the Accounting Principles Board to be replaced for a variety of reasons. It took the standards setting out from under the AICPA which had morphed from a professional body into a trade association and created an independent body. The SEC was merely saying, this is where the experts are, we will work with them. We think it will work the way it's been working. That's my impression.

ROBERT KUEPPERS: That last point I think is critical because we were now saying that the complexity of the business issues need to be dealt with accounting standards are no longer workable part-time committees. We are talking about seven named board members who as a full time job with the requisite full time staff as opposed to an activity that great work was done for decades. But these were practitioners and other people who had different responsibilities and now we are saying, we need specialists here to be dedicated full time to the pursuit of better accounting standards. So it was a big change and the fact that the SEC got behind it is the only reason it is still there today.

ARTHUR WYATT: No question.

MARK BEASLEY: Bob and Art both, you have a unique lens on this whole interaction between the SEC and the private sector because, Bob, you were in the Chief Accountant's Office at one point in your career and Art was on the FASB. Bob, what are your observations of, is there anything sort of curious or controversial, about how you saw that delegation play out in real life?

ROBERT KUEPPERS: The intersection in my mind was the need for the Commission to deal with issues of the moment. So there's an IPO, the company wanted to help go effective and raise new capital, there were accounting issues that came out of the review of the Division of Corporation Finance. Those things had to be resolved and in the process of getting to the right answer the SEC staff, particularly the Chief Accountant's Office, had a tremendous amount of latitude to research the issue, come to the right answer. What I found in my own experience at that time and date myself a little but purchases and poolings took up more than half of my time and so I always called Art Wyatt to try to get to the right answer. But the truth is, there was on a daily basis outreach to the firms, outreach to the standards setters, outreach to other experts so that we were not dealing with a staff that was just making ad hoc decisions, decision de jure. This was very careful and there was a deep sense of responsibility that whatever answer you give today could be the precedent for tomorrow. I actually felt that was seamless between government and private sector and if it was a big policy issue there is no question there would be, maybe not public but more behind the scenes consultation with people who might have a reason to weigh in, so that the decision would stand. Art, how's your experience?

ARTHUR WYATT: I would agree with that. Bob and I, in talking about this issue a few weeks ago, recognized that both the FASB and the Commission had this unwritten policy of mutual non-surprise where they would keep each other informed of their thought processes. I think that the FASB members always recognized that the SEC Chief Accountant's Office had the big club. So therefore in our reasoning at the FASB, we had to do the best we could to come up with a reasoned policy that was consistent with what else was going on. Otherwise, the SEC was going to overrule us. I think you need to recognize the Chief Accountant's Office had, in my experience, Andy Barr, who I worked with and then Sandy Burton and several others subsequently but two of those, those two men were totally different personalities but very similar intellectually in their desire to see the standards that were set best served the investing public. The people at the FASB, especially the initial board members, were of similar caliber and it worked, because the people made it work.

ROBERT KUEPPERS: I do think to that point, Art, what develops over time and of course you got folks turning over at the SEC, the Chief Accountants do come and go, the staff certainly does as well and board members turn over. But the institutional trust that you walk into as a person becomes part of the culture in which you operate. And that never developed or you sort of lived by the letter instead of the spirit of cooperation. I just think we could have had a major change in the system but it wasn't necessary because the deep sense of responsibility of both the FASB board members and folks at the SEC felt fell into the same thing and when you keep investors in the forefront and get into the right answer for the right reasons, it has worked actually quite well over the years.

MARK BEASLEY: Lines up pretty nicely. So when you think about that we are probably all envisioning setting FASB kind of standards but we know, Loretta particularly, as playing a role in registrants' accounting selections and reporting, the SEC does other things that could influence accounting standards, for example, staff accounting bulletins, comment letters on filings and then even speeches. Can you give us a sense for your view on how that has influenced accounting choices particularly from a registrant's perspective and having to monitor all that?

LORETTA CANGIALOSI: I think from a historical view that there probably was a lot less of that going on. However, with the technology we have today and the ability to disseminate information so rapidly, every time that the staff makes a speech, it pretty much is a shot heard around the world once it gets posted to the Web. Same is true of the comment letters that they make. Now comment letters are very specific to a registrant; however many companies pick them up and say, they got this comment, we don't want to get that comment so we will do what they did. You can now get those off the Web as well. So again access to a lot of information is a great thing but I think in some ways it has become a part of the unofficial language of accounting. People do read them, they do interpret them, they do analogize them. We know that many firms put out publications around the comment letters. The AICPA gives a conference every year, it is at the very end of the year, and generally they invite members of the staff to come and give speeches. The speeches are generally about specific focus topics because the staff tends to work with focused topics and allows the standards setting to deal with the more broad based topics. However, pretty consistent when those messages go out, those speeches are taken apart, analyzed, analogized and somehow new GAAP gets created.

So there are those pitfalls and I realize that the staff generally is trying to react to something very specific that is happening in the market, some specific disclosure that they are looking for. We work with financial statements which tend to be historical, therefore they are always looking back. I think the staff certainly tries to be a lot more proactive in some of the things, but again they are always having to react after. Financial instruments is one; you can rely on speeches to come out about financial instruments just about every year. Right, Bob?

ROBERT KUEPPERS: Exactly.

MARK BEASLEY: Do you see a difference? I mean when you think about this way of influencing accounting standards, do you see a difference between staff accounting bulletins versus a speech versus a comment letter?

LORETTA CANGIALOSI: Staff accounting bulletins are most definitely authoritative. People know that that is the rule; we need to be following that. Staff accounting bulletins are really good because they give you the reasons why. You understand what they are trying to do. It goes through more of a due process, whereas the speech gap, when it comes out is, this is the way it is and this is the way the staff interprets accounting. So it's the staff's interpretation of accounting which registrants say, ergo, it is the SEC wants us to do this. So it becomes authoritative in its own right and that is the way registrants generally think about it.

Comment letters are a little less so other than we do hear from accounting firms. We have seen a trend of people getting comment letters around their disclosures of taxes in different jurisdictions. All of a sudden everybody will be looking at that disclosure; what are they after? Why do they want it? So it gets a lot more play now than it ever did before because those letters are now public. Previously they were not, I think up what, until about five years ago. Now they are public and so it gets a lot more plain. People are always looking for what is out there, what should I be doing better, what is the right thing to do? I think for registrants as well as accounting firms, we live in such a dynamic environment, we are not bricks and mortar any more. We are very much into intangible things. People in 1938 could never have conceived of a cell phone and when I say the cell phone or iPad, I am selling a piece of hardware and a piece of software and what is this software thing that I am getting because I can't see it?

The environment has gotten a lot more complex and the SEC has also had to get a lot more complex but also continue to rely on the experts that Bob noted to come forth with the right accounting.

ROBERT KUEPPERS: Rather as a preparer, you and your colleagues and the preparer community have kind of a challenge because the only thing worse than getting some new guidance on accounting in December is getting it in January. The conference you referred to used to be in early January and now you couple that with the fact that all the big companies are getting reviewed each and every year essentially. If for whatever reason you choose not to heed the advice that is in the speech, then the presumption is you are going to get a comment when your filing is reviewed. And yet we are struggling, our clients and our clients struggle themselves trying to figure out, if something sort of drops on the table at that time of the year it shouldn't be a surprise but sometimes it is. That is a mechanism that is designed I think to narrow practice or to sort of solve a problem but it is a weird time of the year to do.

LORETTA CANGIALOSI: I agree, I think in a lot of cases what they are attempting to do is give people a heads-up on what their expectation is. I think a very interesting dynamic that we have seen play out over the last year has been on FAS-5 dealing with contingencies, where the FASB basically was trying to come up with a new rule on contingencies. A lot of constituents came back and said, not workable, you don't understand this is very complex stuff. We can't do all this. We can't fair value it. These disclosures are too much. Basically the FASB came back to the SEC and said, you see what's happening here and people are saying that it is the way it is being enforced is not right. So the SEC made very good on their promise and went out publicly and said, we are going to be looking at the enforcement of this. I think that has been quite true. So that is another way in which the SEC provides oversight as well as assists the FASB in trying to either prove or disprove the theory of it is the enforcement.

ROBERT KUEPPERS: One of the things that strikes me in the staff accounting bulletins is that, as you mentioned, that it is a little more formality to them and while they are not statements of the Commission, they are also not issued without full knowledge of the Commission and comfort that it is appropriate. I always felt that the staff accounting bulletin role was fairly narrow; it was designed to maybe take practice that was divergent and sort of make it more consistent. The one I remember working on myself with is the, I don't remember the number any more, it was 61 I think, but it was repurchase agreements in the savings and loan industry because we were starting to see some incredibly different treatment in the financial statement of best analysis in the mid-'80s and we felt we had no choice as the staff but to act quickly. Many things have happened since then to make it a little less normal to have staff accounting bulletin but I think it served a very important purpose and they always came out sort of in the throes of some controversy and it added finality to the issues so that people knew exactly what they needed to do.

ARTHUR WYATT: The objective it seemed to me, in my perspective, was to stop a proliferation of what the staff believed was a weak practice and to do it on a timely basis. The FASB might have been able to do it but their due process requirements did not permit them to operate on a timely basis most of the time. I think it worked reasonably well. The speech thing, that bothers me because there is no noted process and sometimes depends on who is the speaker. I don't think that has happened very often but there have been Chief Accountants that have spoken a little more off the cuff than others.

MARK BEASLEY: That provides a nice segue into our second theme, that being looking more at factors that have influenced the SEC's role in the accounting standards setting. We touched on this a little bit, even Loretta brought through the current context in the speech area. But I would like to focus specifically on getting your view points on how politics, the political environment in our country, had an influence over the 80 years of this delegated authority. We have seen changes in Presidential administrations and Congressional administrations. How have you observed the Washington political scene, if you want to think of it that way, having an influence on accounting standards? Art, can I put you to respond to that?

ARTHUR WYATT: I view politics at two levels, one is the Washington scene and the other was the lobbying by the business community of the FASB members. But taking the first one, I think it is pretty clear that politics played a role in the oil and gas accounting decisions that the Commission made. Politics later intervened with regard to accounting for stock options compensation. Those are the two that come to my mind. Most of the politicians are not CPAs; their eyes glazed over when you started talking about accounting standards unless it was something that was at the heart of their district. On the other side, the lobbying by the business community of the FASB had enormous influence in many areas. I think back to lease accounting, the FASB Statement 13, I think it only required about 600 pages of interpretations and the reason was the statement was illogical and it was illogical because the leasing industry just wouldn't accept what the FASB really wanted; they didn't like the answer. It is generally what happens in the political process. A group doesn't like the answer. So they lobby to get it softened. It happened in the pension area. There are a number of areas where if you took a clean piece of paper, you would not have come out with that result. That has had I think more of an impact on the nature of the standards than the political process from Washington.

MARK BEASLEY: Loretta, I would be curious if you have any observations from a controller's perspective in an industry, how have you seen that play out?

LORETTA CANGIALOSI: I look at what does Congress want. Congress looks at the economic health of our country and so their agenda is not specifically aligned with where the SEC is, which is they are really looking out for the investor, that is their mandate. So you have these two different agendas going on. When you get to something like pensions, I am sure that at the time there was a lot of lobbying going on that this was bad for business and profits would go down and people would be hurt and so as a Congressman that is a political problem. There is more likely to be that pressure on the SEC to come off of a position that they may not like. We do see though with politics, I mean, I think you really have to look at the politics, the economic environment and what is going on with the SEC and accounting because all of these things are intertwined and they do all mix or not mix together. So, every time there is a crisis, whether it is in Enron and we get variable interest entity accounting, or special purpose entities, or a Madoff, there is a reaction to it. The accounting itself has changed dramatically over time from being very income statement focused to being very balance sheet focused and now we have added a layer of comprehensive income focus.

These things change over time and the politics works its way through them. I don't think you will ever be able to divorce yourself from that but understanding and kind of being a student of history and looking at what happens and what can happen, you can learn a lot from the politics. The economy and the running of the economy is critical and key to Washington, it's key to business people. But that is why the standard setter has to really stand out there in the private standard setting because they are really the independent voice. They do need to be balanced with cost versus benefit but that is another consideration of their job.

ROBERT KUEPPERS: Loretta, you raised one thing that you are so close to going there I just want to complete your thought. Let's say there is an accounting issue that might have an impact on company earnings and gets the attention of members of Congress and some thoughtful member of the House Financial Services Committee or the Senate Banking Committee writes a letter to the SEC saying that I think this is an important issue and we certainly hope that you are going to follow through on this with the FASB. In its oversight role, I have no issue with that. What makes me nervous is when members of the Congress decide that they are actually going to establish accounting standards by statute, which maybe totally incongruous with the securities laws and many other things, and the precedent of that always worries me, if we start heading down the road where random members of Congress connected with some other piece of a larger legislation can change the accounting rules that way which if they had the authority to do it they would always do it. That just feels to me like we are heading down a road that is not good; it tends to undermine the SEC and the FASB. And so that is the one place that I would rather draw the line saying when things get emotional, sometimes folks introduce legislation and then I think it really threatens the system.

MARK BEASLEY: What would say is the best example where politics probably stepped in the most? Was it the oil and gas or the savings and loan crisis?

ARTHUR WYATT: I wouldn't pick one. Let me pick something a little different. The FASB was formed because of the perception that the APB members not only being only part time but they were susceptible to being persuaded by their clients to do things a certain way and then there was lobbying within the APB. APB-16 and 17 ended up in two standards instead of one, because they couldn't get 12 votes for the one standard. Splitting in two they could get 12 for each.

The FASB came into being and one of the objectives was to get the politics out by having a conceptual framework be developed. If we look at some of the weaker standards that the FASB has issued, we can see that they didn't follow the concepts. We still hear 40 years later that we don't have perfection and we may never get perfection because there are those who will lobby, and there are those who will threaten to write a law and they have the power to do that. And so when that surfaces, it seems to me that it behooves the FASB and the SEC to do what they can to counteract it. This is a tension that won't go away. As a techie accountant, I would like everything to be conceptually sound, that is my job to reason through to an answer and disregard the politics, but that is not the real world. The real world is there are going to be forces and we have to learn to deal with them and I think that overall the combination of the FASB and the SEC has done a pretty good job in serving the investing public.

MARK BEASLEY: Bob, again, you had a tour of duty through the SEC, I would be curious from everybody but I will start with Bob. Do you see one of the factors in this process even being linked to somewhat the personality or focus of the person who is sitting in the SEC's Chief Accountant's seat that rotates? Does this ebb and flow a little bit?

ROBERT KUEPPERS: No question that the orientation or agenda or conceptual sort of framework of the Chief Accountant can really make a huge difference. We haven't talked of the Chief Accountant as a position yet but I always say the Chief Accountant is basically the king of accounting in America because that one government position has more influence than any other one in our profession that I can name. So you got Chief Accountants that were legendary in terms of their vision or just super solid and had a nice long run. Andy Barr was as solid a guy you have ever want and Sandy Burton, very different fellow, as we were talking before, but intellectually an equal for sure. I worked for Clarence Sampson and Edmund Coulson in my time there, but Clarence was one of Andy Barr's protégés and then in more modern times we have had more shorter tenures, the most recent Chief Accountants, some of them were true reformers.

ARTHUR WYATT: Attempted reformers.

ROBERT KUEPPERS: Well, you know and we were talking before is there anything you kind of look back and say, I wonder if they will do any good. We had a couple of cases where Chief Accountants have strong interpretations that were new, leading to in some cases hundreds of companies having to restate their financials. There is no elegant way to get from here to there, so this statement is one route. But at the end of it all with all the cost of that today for a big company, I don't if we will move the needle or not but, but still even that was within the spirit of getting it right. And so we have been very fortunate to have great Chief Accountants over the years and it is such an important position that I think the influence of that individual on the office and then as it cascades through the private sector, the agenda they set, the signals they send is very important.

MARK BEASLEY: Art, I am curious about your take on that too because you know many of these personally, have known them.

ARTHUR WYATT: I think I would agree with Bob. I have to give maybe higher marks to Andy Barr than anybody because he had to deal with very strong personalities in the individual accounting firms, the titans of the industry where some of the names were names that everybody in the business community would recognize. That is not so true today. Most of the leaders of the big firms are more marketing oriented than they are technically oriented. Andy dealt with those people, he did not have the stature when he started but they did. But when he finished he had the stature that was equal. And then Sandy came along as a different personality but he even heightened the perspective of the Chief Accountant's job. So the king of the accountants is probably a good description. But we have been blessed with having some very good people doing that role.

LORETTA CANGIALOSI: I would say I like the king of accountants term. And it almost has to be Solomonesque in the way that it is done and I think the more successful Chief Accountants have been willing to listen, been very thoughtful about their approach but have also been decisive about what they were looking for. They have worked collaboratively across whether it with business, with the firms, with the investors and so that ability to work across all of those constituencies really is helpful for them. So the ones who have been less successful are the ones who have not been able to listen and have really just pushed their agendas forward or the agenda of the Commission, I am not exactly sure where the agendas come from sometimes. So, that is my viewpoint on the Chief Accountants.

ROBERT KUEPPERS: Just a footnote, the other thing that happens is it really depends on whether the Chairman and the other Commissioners have a deep interest in accounting. Sometimes there have been Chairmen who either by design or by agenda or by circumstance learned a lot about accounting and auditing due to a crisis. In other cases, it's been actually somewhat difficult to find one of the Commissioners who is steeped in the issues and the importance of them. So the Chief Accountant without a Commission…

MARK BEASLEY: Goes separate ways.

ROBERT KUEPPERS: It is really important.

LORETTA CANGIALOSI: Right.

MARK BEASLEY: Loretta, I wanted to come back to you and another factor, being EITF, which was created in the mid-'80s. How do you see that influencing accounting standards and how it influenced this relationship between the SEC and the FASB or the private sector, I should say?

LORETTA CANGIALOSI: The EITF is an important group. The main purpose at the time it was established was really to deal with narrowly focused issues and to deal with them quickly, things that people could come to a consensus on. The SEC has an observer on that group, so they do watch, they see what goes on. I am sure they guide when they feel that there is something that doesn't make sense to them. I am sure they give their opinion. It was and it has been an effective group in getting things done quickly. I think it does have this kind of cross functional type group that does have business people, it has people from accounting firms. So it has different perspectives trying to work on an issue that is narrowly focused. Today, it has kind of morphed into a little bit broader and we do see some of the issues they tackle really impacting a multitude of companies which was not the original thinking but that is what it has kind of morphed into. I do think that the SEC finds it a good place to refer issues to through the FASB when they have things come up from registrants overseeing patterns coming up from registrants.

ROBERT KUEPPERS: The advent of the EITF in 1984 created yet another venue to resolve issues so that everything didn't have to go the Chief Accountant's Office. I think the reason it worked well for a long time was issues were narrow, a consensus could be reached, they kind of met the definition of the kind of thing you could resolve and with that it was a very visible manifestation of the guidance of the SEC because if discussion was going fine and heading in a good place, the Chief Accountant didn't have to say a word. On the other hand if somebody came up with a loony idea and started catching on, there would have to be a little signal that maybe we should table this or you can go there but we are not going to accept that. I will tell you one thing though, the very first issue, the '84 one, as you get into the depth… it was a simple issue. The issue summary was a page and a half and the consensus was a paragraph. And then as years passed, I remember getting 80 and 90 page issues paper, review A, B, C, D. I kept thinking, I had been out of it for a while, things have really changed, the kinds of issues being considered were increasingly complex.

So I still think it helped the SEC, if we can get something resolved by the FASB through a process, and because we don't have to issue a staff accounting bulletin. I think it served an important role and it was not inconsistent with the idea of delegated authority.

MARK BEASLEY: Before we move off our second theme on the factors influencing the role of the SEC in standards setting, Art, I want to come back to you because we have a unique opportunity to capture the reality of what it feels like to be influenced perhaps as a board member of the FASB. I am particularly interested in there were times when you dissented on a standard. What kind of factors tried to influence you in that dissent kind of process? Does anything come to mind that stands out?

ARTHUR WYATT: I tried to apply the conceptual framework as I understood it and that you have to recognize came from my background at Andersen because we had a conceptual framework not too different from what the FASB ultimately came out with prior to the formation of the FASB. So that was sort of my bias. You have to recognize that the voting requirement at the FASB on a standard has been either four to three or five to two, sometimes you needed five, sometimes you needed only four. But there were always two or three dissents sitting on the table and if you got there first you got the opportunity to write your views, whereas if you were in the majority, you had to have your views folded in with the others' views. On pensions, where I ended up dissenting, I was not a dissenter to the pensions standard until we got into the corridor approach which boggled my mind as where you could turn to in the conceptual framework and find any thread of support for such a notion. So that gave me an opportunity to dissent. I never felt any indication from anybody at the Commission, any Chief Accountant, that I should not be permitted to dissent on that or any other standard. That never even entered my mind and I think there was respect that if the board couldn't come up with a majority opinion then we were going to have to act at the Commission. That was pretty powerful force for the FASB to make a decision.

MARK BEASLEY: Just in our remaining time I make sure we talk the third theme, bringing the SEC's influence in accounting standards into the current context of 2011 and then beyond. Bob, let me start with you, in your role at Deloitte, how have you seen the role of the SEC and accounting standards changed even if at all as a result of the Sarbanes-Oxley Act? Did that change that dynamic at all as far as influencing accounting?

ROBERT KUEPPERS: Well, interestingly the biggest change I think, I think about the Office of the Chief Accountant in the role, really wasn't in the accounting area, it was in the auditing area and the formation of the PCAOB, the expansion of the office in order to oversee yet another organization. The act made it very clear that you could look to another qualified standard setter. It really opens this discussion to the whole question of where are we going and what about international standards versus U.S. standards? And just for the record, I don't think there is anything wrong with U.S. standards; they are what they are. It evolved over all these decades and I am not suggesting of burning platforms that we need to move on from them. But, let's face it, you talk about politics and I had two brands of politics, that you mentioned, I will mention a third and that is the global emergence of the G-20. When President Bush and Angela Merkel decide that we are going to go to international standards, it is a big deal. You have to listen to that if you are the Secretary of the Treasury or the Chairman of the SEC.

The field has opened up in terms of where are we really heading and it wasn't so much, I mean there are elements you can point to in the act, but on the accounting side obviously we have been stable for the last ten years, notwithstanding the Sarbanes Oxley. But the real question is, where are we going to go? I guess somebody looked at that 108 provision and then the fact that we are in the current model as we invoiced and institutionalized the law of the FASB but you have introduced that whole IFRS issue. And I would like to go there and, Loretta, the listeners can see you nodding your head. But since you are agreeing with some of your conversation about just the reality of the global pressure in accounting standards. What is your take on the current position and sort of where we seem to be going or not going in regards to embracing IFRS from an SEC lens?

LORETTA CANGIALOSI: It is very hard to argue with the very basic premise of, wouldn't it be nice if we all had the same accounting principles globally? I don't think anybody could argue that. The truth of the matter is, we will never have that because each country has its own economics, whether it is the EU or the Japanese or the Canadians or the Americans. So, there will always be different flavors, to start out with vanilla, some will want to change the flavor, some will only want to add sprinkles, but there will always be some changes. So I think that is the first thing to understand.

The second thing from what the SEC has developed so far, I think they have put forth a very thoughtful proposal, a proposal that is designed to ease us into position for international accounting standards, being respectful of what the G-20 has come forward with, they needed to react to it. They have not attempted to say just big bang which they could have and I think that would have been put a lot of pressure on companies in a bad way for investors because it is too much change happening all at once. The amount of change is not only in the technical accounting but for registrants a lot of systems have to be revamped. So there is cost, again going back to the economics and particularly for private companies there would be costs that would be if they were to say FASB, go away, everybody is on IFRS. So there are attendant costs to that which again is evolving having the FASB around guarantees that the US will be able to moderate those standards where absolutely necessary to deal with their own economic issues. We have specific litigation issues, we have very specific compensation types that other countries don't have that we need to deal with. So I think what they have put forth is a very thoughtful proposal.

MARK BEASLEY: I would be curious if you were asked to come back and do this program ten years from today, do you anticipate we would be describing the SEC's role in accounting standards differently in the context of IFRS? Do you anticipate it to be wildly different?

ROBERT KUEPPERS: This is really an unfair question but let me answer it anyway. Let me go back to politics for a minute. I don't think that folks in the United States Congress are going to look kindly on having everything that is done by U.S. companies developed by some international board that happens to physically meet in London but it really is an international body. That's why I think the FASB would remain crucial as a national standards setter to make the determination whether as promulgated or as possibly modified a U.S. version of IFRS is the way to go. I also think and I am just being practical here, the SEC is accountable, the folks they oversee are accountable and if I remember the House Financial Services and Senate Banking, I want to have somebody I can subpoena if there is a crisis or a problem. And so that is why I think and if you look around the world, this is very true. National standard setters remain, not because they are writing them from scratch but because they are acclimating to the business environments of that they are in. So in that way I think ten years from now if this all plays out we wouldn't be looking at anything too different. But the raw materials that would be the standards would actually be shipped in, but then we have to do with them as we see fit here in the US.

MARK BEASLEY: So I wanted to talk about IFRS issue but I also wanted to talk about the current economic crisis. Art, you started out with a little of bit of giving us a perspective on how we ended up with this delegation authority when the SEC was created coming out of the Great Depression. So, many argue that the current crisis we are dealing with is the second greatest economic crisis we dealt with outside of the Great Depression. Do you see any lessons that we maybe should have been learning that came out of that depression era that should be impacting the SEC's current involvement in the accounting standards, given the crisis that we are continuing to sort of deal with in the country and in the global world really?

ARTHUR WYATT: I don't see that the SEC has dropped the ball in any significant way. I think that the international arena is a wild card. In addition to the points that Loretta mentioned, we have cultural differences that take a long time to change. Ten years maybe enough, it may not be for some countries to agree to go in a direction that others are going in. I think the biggest challenge for the SEC is to get comfortable that other countries' securities regulators will enforce the standards even handedly and in the same manner and the same level that the Commission has tried to enforce accounting standards. You have three things, you have adoption of standards, application of the standards and how well those applications are enforced. We don't have the mechanism from my perspective dealing with this arena nearly 20 years ago now, we don't have the cultural development in many countries to see the enforcement in the same way that we have come to accept that part of the equation in the United States. Until we do I think the SEC has a hard job forcing US companies to follow international standards.

MARK BEASLEY: Loretta, as we wrap up this session, is there anything that would be in your wish list that you wish the SEC might start doing or not doing in this particular area of accounting standards?

LORETTA CANGIALOSI: It's a tall order that they are trying to follow and being proactive is probably the best way to avoid disasters. It is very difficult to do. I think the only thing that I would probably say for stop doing would be some of the technologies stuff, being on the leading edge with things like XBRL has caused some concerns for companies. I think overall the stuff that they are doing whether it is comment letters, I am not saying I love them, but they are necessary and they go to this issue of enforcement and that is their job.

MARK BEASLEY: I wish we could continue because this is fascinating for me. I hope but I can't say for my students because they will be listening to this at some point I am sure. But I do want to just turn to Loretta and Bob and Art and just say thank you all for your willingness to join us today to share your insights into the SEC's role in accounting standards setting.

Today's program I think is going to add to the wealth of information on accounting and auditing that is already in the museum's collection and I think it is awesome that this will be archived for later use. It will be a valuable link in the Richard C. Adkerson Gallery on this subject which is currently being curated by George Fritz, a retired PricewaterhouseCoopers partner and consultant to the industry. It will be permanently open in the museum at the end of 2012.

The audio of today's broadcast is now available on www.sechistorical.org and an edited transcript will be prepared soon.

On behalf of SEC Historical Society, I would like to thank Deloitte LLP for its generous support and assistance of making today's program and the Deloitte Fireside Chats Series possible. Thank you for joining us today. Good afternoon.