Securities and Exchange Commission Historical Society
Oral History Project
Interview with JT Ball
Conducted on February 17, 2011, by Kenneth Durr

KD: Interview with J. T. Ball, February 17, 2011, in Treasure Island, Florida, by Kenneth Durr. Well, let's start with education. Are you from Texas?

JTB: Yes, I am. Born on a ranch near the middle of Texas. I grew up in Abilene, which is also in the middle of the state, and went to Hardin-Simmons University for a bachelor of business administration; and then another local college, Abilene Christian University, for a master's degree in accounting; and subsequently to the University of Texas at Austin for a PhD.

KD: So it sounds like you took to accounting pretty quickly.

JTB: Yes, my interests were either engineering or something else, and they didn't have an engineering program at the two colleges in Abilene that I went to. So I took a test with the VA and it said I had a high aptitude for accounting so that's what I did.

KD: Going on to a PhD in accounting is relatively unusual, though. What do you think spurred your interest to move into the academic side?

JTB: Well, I did some teaching – I did lab instructing, for example – and a couple of professors urged me to continue my education, so I got a master's. One of my professors there had been to the University of Texas and he encouraged me very strongly to go down to Austin. I went down and talked with the chairman of the accounting department and decided that it was probably not a thing that I wanted to do or could afford to do, as the case may be. And a year or so later, a new chairman came in and wrote to me and said, “We'd like for you to come down.” Anyway, that led to me doing that.

I completed all my coursework, and I had a job at the University of Florida in Gainesville, and I needed a summer job. This professor at the University of Texas had been on the AICPA staff and knew some people there, and they had a program to bring in a half a dozen professors to grade the CPA exam each summer. I needed the employment, so I spent a summer in New York grading the CPA exam and got to know the people there. And then I went to the University of Florida and taught there. Our chairman left the last year that I was there, and I was acting chairman of the department and found out I really didn't like administration. [Laughter.]

But at any rate, I got a letter from the AICPA saying that they would like somebody to come up to New York and put some new material on the CPA exam. I was qualified and took a leave of absence, and it was originally to be one year and I extended it to two years and, finally, I decided to stay. After working with the CPA exam for three years, I was asked by the chief of staff of the AICPA to move over to a new position to work with the Accounting Principles Board and develop interpretations of what they did. So then I spent another four years doing that.

KD: All right. Then that takes us pretty far into your career at that point, so let's back up a little bit. It sounds like you would have been finishing up your academic training at about the time that the APB was set up and accounting was really making the headlines a little bit.

JTB: That's right. Originally, the first body was the Committee on Accounting Procedure, which was created about 1938, I believe. That was when the SEC was being very active and there had been a group at the AICPA that worked with the Commission in the early days. Actually, the first securities act was administrated by the Federal Trade Commission. Then the APB was created and ended up mostly fighting brushfires, doing things fairly *ad hoc*. They had several organized things, but they were also dealing with a lot of problems that came along.

KD: Right. Were you aware of the investment tax credit issue?

JTB: Yes, I was. That was while I was in the PhD program and lived through some of that.

The senior elected official of the AICPA in 1959 recommended the creation of a new body to use research to find accounting answers. And so there was to be an extensive research program, and the researchers would find the truth, and then the managing partners of the large firms were all on the APB and they would come in and rubber-stamp the truth, and it would, therefore, be enforced. That was the notion for the Accounting Principles Board.

The APB actually did nothing for the first three years. They met quarterly for a morning, and the research was going on. So then when the research started coming out, they disagreed with it. And so they didn't rubber stamp the truth. Then they started dealing with problems. The managing partners left the APB, and the senior technical partners came in as the APB members. And they, obviously, had more interest in solving the problems than did the managing partners, who were largely administrative.

KD: These are from the Big Eight firms?

JTB: These are from the Big Eight, and you had some corporate and academics. The APB varied from eighteen to twenty-one members. It started out as twenty-one. It actually got down to seventeen at the end because one member resigned when the FASB was to be created.

KD: When you were at the University of Florida, you met Carman Blough and had some discussion with him about the whole early period of the APB and the controversies involved.

JTB: Right. Carman was a visiting professor during the winter trimester at the University of Florida, and he taught a graduate accounting seminar. With his permission, I sat in and listened to that – really one of the most intriguing things you can imagine. This man had been the first chief accountant of the SEC, the first director of research of the American

Institute of CPAs, and when he retired, he did this for three years. And so I sat in his last class, and he talked about things at the SEC when he started, and at the AICPA as research director and then on the Accounting Principles Board.

The controversy over the investment tax credit was in process at that time, and I recall watching Carman walk down a hallway carrying a telex that was several feet long, and he was grumbling. This was when he was voting on APB Opinion 4 on the investment credit.

KD: So what would he have been grumbling about?

JTB: He was very unhappy about the APB having to back down. And, of course, if you know the history of the investment credit, it kind of all fell apart, and that was the first big controversy in accounting principles.

KD: Did he have an influence on your decision to go to the AICPA?

JTB: Not directly. It was really more his philosophy that had a lot of influence on my thinking later on. Going to the AICPA was really because they got to know me when I was there grading the CPA exam. And then I got invited to come up and work on the CPA exam, and the APB thing was because Len Savoie, who was then the chief of staff of the AICPA, got this new position created and asked me to come in and do the work for the

APB. So I wrote all these interpretations of APB opinions. And that was really my start of getting into the standard-setting process.

KD: After this short period in which you're more or less doing the exam side of things, you moved into the standards.

JTB: Yes, and I did that for four years.

KD: Tell me a little bit about the AICPA at this period – late sixties, I guess. Was it a pretty well-funded, pretty strong organization?

JTB: Yes, it worked primarily with volunteer groups, and you had all these various committees. You had senior technical committees, like the auditing committee and the APB, but you also had other kinds of technical committees. It was not as divided into sections as it is now. The APB, for example, met for typically three or four days about six, maybe eight times a year. These were very tough meetings.

They worked as committees in the APB, and I would start with a breakfast meeting, say at 6:00 in the morning, and attend a committee meeting to get as much background as I could in everything that was going on. Then they'd go into board session and that would go to lunch. Then they'd break for committees at lunch. Then they'd go back into session, and then they'd typically have a couple of committee meetings, dinner, and later meetings. And so I was typically in meetings about eighteen hours a day, attending one of those, so it was a very intense kind of thing for me. And I was learning an awful lot in a big hurry.

KD: Would everybody come to New York for these, or did you have them at different places?

JTB: They were all over. And they tried to work in a golf afternoon, if meeting at a resort, which often didn't work because it was raining or they had something else to work on. But as I say, the meetings were three and four days, usually starting like on a Wednesday, go through Saturday. Most of them were in New York, but they were all over the country.

KD: Okay. There had been some pretty significant events in the accounting profession, mid to late sixties: National Student Marketing, and Westek and then Penn Central came along later. So there was a sense – I think at this point some folks were starting to be concerned about the quality of the profession itself. Was that evident during these meetings that you were attending?

JTB: Well, the most controversial was the business combination/goodwill project. That was what ended up as Opinions 16 and 17. There were two research studies that led up to that, one on business combinations and one on goodwill. So when the APB took up that, they initially voted for purchase-only accounting, and that gradually deteriorated down to pooling with no size test. And the big issue was whether there would be a size test. For example, the SEC supported a very high-level size test. One guy said forty-nine/fifty-one; companies had to be almost equal size to have a pooling.

As I recall, Andy Barr supported something like two-to-one as a size test. There had been a size test in the literature originally, which was twenty-to-one, but that was not being observed in practice. You also had poolings that were part-purchase, part-pooling where there'd be some cash, some stock. But in any rate, in Opinion 16, clearly, the pooling question was the very toughest one that they dealt with. There were others later on, but that one took up most of the effort during the time that I was there, and it certainly occupied a huge part of the work I did, writing interpretations of opinions.

Opinion 16, dealing with purchase-pooling, has quite a number of criteria that have to be met for a pooling. And this was very controversial. Opinion 16 was very detailed, and you had fairly high hurdles, supposedly, but all of this revolved around a size test. The APB meeting where the size test fell, they had reached a compromise, and it was a complex situation because goodwill played into it, how you handle goodwill.

So at any rate, the board agreed to go forward with a no-size test pooling. They instructed the chairman of the committee dealing with this and the director of research at the APB to go away and break this, and take out all of the size test problems.

They did this overnight and brought it back the next afternoon, and board members starting finding problems with "Well, we should look at this; we should look at that."

And one member says, “Look, I agreed to do this; we don't change a word. If we're going to go forward, let's vote it out and do it.” And so immediately after this was issued, immense problems developed in practice. And the board agreed to look at some potential changes.

And one board member finally said, “It's too soon to start amending this. We'll tell J. T. to deal with these through interpretations.” And so, in fact, there were several what I'll call amending interpretations issued at the instructions of the board that were issued as interpretations of Opinion 16. One interpretation said that wholly-owned could be down to 90 percent. Well, that's obviously not so, but the APB said, "Well, 90 percent is a good cutoff." And they weren't going to amend the opinion, but I could interpret it. And so they instructed me to write an interpretation to that effect.

And so I spent a fair amount of time with the technical partners of the accounting firms dealing with all of these issues, and these were published as interpretations in the *Journal of Accountancy* each month.

KD: So were there particular interests or factions that were pushing, say, no-size tests versus the size tests, things like that?

JTB: Well, corporate America clearly wanted poolings to continue, and they wanted as few restraints as possible. The board itself was split quite a number of ways. One of the interesting things is that the exposure draft for this dealt with both business combinations and goodwill as a single subject. And it was rumored later when it was broken into two sections as Opinion 16 on business combinations and 17 on goodwill that they couldn't get the votes to do one. That's not so.

That's a widely-held belief. But what happened was that there were so many different views and APB rules said that they had to have two-thirds affirmative vote for every paragraph, but a board member could have a qualified assent. So he could object to some paragraphs, but vote overall for the thing. Well, as it turned out, there were so many qualified assents to a single opinion that it would look like it had virtually no support. So one board member suggested, "Well, why don't we split it in two?" And by splitting it in two, the ones who were really dissenting to goodwill could dissent to goodwill; the ones who were dissenting to business combinations could dissent, but you could have qualified assents as well. And so each paragraph had its two-thirds vote, but it would have had the two-thirds vote otherwise, you would just have had a different voting arrangement.

KD: Right, and the appearance was of something much more strongly supportive.

JTB: Yes.

KD: I'm intrigued; you talked about the fact that the board members were split in a number of different ways. Can you characterize what those different ways would have been for me?

JTB: Well, goodwill, for example. You had a view that goodwill should be written off immediately. You had another view that it should never be written off. And so you had the same kind of distinction on the business combination. Some people thought you should have purchase only; others thought you should have poolings. Today we have just purchase-only accounting. That's an FASB later ruling after I left.

It's a very tough question, and I suspect that in the small business world there are probably cases that can be made for pooling where a family that owns a number of different businesses decides to put them together; if you put them together under purchase-only accounting, you get some strange answers. Pooling got rid of that kind of problem, but any kind of test you try to create for poolings leads to all sorts of problems. It is a complex issue.

KD: Let's talk about some of the people who were members.

JTB: APB. Well, when I went there, Lee Layton, of Main Lafrentz, was the chairman. He was assisted by an advisor, one of his partners named Phil Chenok, who later because president of the AICPA. Lee was followed by Phil Defliese, who was a managing partner. Lee was a managing partner also of Main Lafrentz. Phil Chenok was a senior technical partner. Phil Defliese was the managing partner of Lybrand, Ross Brothers and Montgomery, which is now PW Coopers, PricewaterhouseCoopers. He was assisted by Ken Johnson, who was their senior technical partner.

George Catlett of Arthur Andersen was assisted by Art Wyatt. George was the senior technical partner at Arthur Andersen. Joe Cummings was the senior technical partner, later vice chairman at Peat-Marwick Mitchell, now KPMG. He was assisted by Walter Schuetze, who later was a FASB board member and SEC chief accountant. George Watt was from Price Waterhouse, assisted by Ray Lauver, who was a partner who became an FASB member.

KD: So did all the APB members have assistants?

JTB: Seven of the Big Eight had assistants, and some of the smaller firms had assistants. They were called technical advisors, and the technical advisors did a phenomenal amount of the work. My first APB meeting – this was in Chicago – and I was sitting at a table with several technical advisors. The board members were sitting at a different table, and they were developing policy issues and the technical advisors were dealing with the implementation kind of issues.

The technical advisors often did the actual writing of the opinions. Art Wyatt, for example, was the person who did probably eighteen drafts of APB Opinion 18 on equity method accounting. The only Big Eight member who did not have a technical advisor was Frank Weston, of Arthur Young, and he was a hugely capable person who simply did it all himself.

KD: He must have wanted to. Were there some who were more influential than others? People who really dug into these issues and took the lead?

JTB: Well, the APB worked as committees, and so you had five or six members of the APB on a particular committee. And those people became much more involved in all the nitty gritty. Obviously, some from smaller firms couldn't put the same kind of attention time into studying the issues that the large firm people did. Oral Looper from Exxon, for example, had a technical advisor, Bob Stevenson, and he certainly put a lot of time in.

KD: Well, let's back up a little bit and talk about your shop, what you were doing. Tell me what's involved in doing an interpretation.

JTB: Are we talking about APB or FASB?

KD: We're talking about APB. And I know that one of your first projects came from a recommendation from Andy Barr at the SEC, or something like that. I'm interested in what the process was, as far as the research and consulting and really crafting interpretations.

JTB: Andy Barr had an issue and he called Len Savoie, who was the chief of staff at the AICPA, and asked that someone deal with this. I didn't have anything else going on, and I had been newly appointed to this research position. It was research associate for accounting interpretations for the Accounts Principles Board. So Len sent me to Washington, and I met with Andy Barr on a Saturday morning. He told me about the issue and I came back and met with a lot of knowledgeable people.

KD: Do you remember what the issue was?

JTB: Yes, it was how to value restricted stock held by mutual fund. And, actually, I did not end up answering that question. I did an awful lot of research but, before we could do an interpretation, the Commission told Andy to put out an accounting series release, which he did.

The problem was that mutual funds bought restricted stock and mutual funds, of course, mark to market. And so the question was whether they could use quoted market price for those shares that could not be sold or whether they had to put some kind of haircut. A pretty simple question; the answer's not that easy.

KD: But you got co-opted on that one?

JTB: Yes.

KD: Tell me a little bit about the research process. What kind of research is involved here?

JTB: Well, I had telephone calls all day long coming from people who had questions. Initially, this was APB Opinion 15 on earnings per share. Clarence Sampson, for example, at the SEC might call me. He was the deputy chief accountant at the time under Sandy Burton. He had been deputy chief under Andy and then he was deputy chief under Sandy, and then he became chief accountant, acting chief, and then chief. But these people, primarily the advisors to the APB members, would call me about questions that they had had. Had I had this question before?

And so I had all kinds of input coming in, and I would call other people that I knew who knew a lot about the subject and get their input. And I'd reach some kind of conclusion and draft it up and I'd take it to Dick Lytle, who was the administrative director of the APB. He was AICPA staff. He and I agreed on it, then it went to Len Savoie or later Wally Olson, who was the senior AICPA staff member, and then it went to the chairman of the APB, who was Lee Layton originally and Phil Defliese later. The number of questions that came in on earnings per share was just phenomenal. So I had published maybe 30 or so in the *Journal of Accountancy*.

KD: Thirty interpretations?

JTB: Oh yes. And we finally said, "Well, we ought to just put a book together," and so I developed a book, which was published as *101 Interpretations of APB Opinion 15*, ultimately. I had gathered all this input by talking with these different individuals at the accounting firms and companies, whoever. And then I drafted these up, got it through the clearance process, and the APB decided they wanted to look at it, and so they had an opportunity to review the galleys of the book. And then I sat down with Phil Chenok, who was Lee Layton's technical advisor. Phil was a senior technical partner at Main Lefrentz, and he and I worked through all of the questions that had been raised, and then the book was published.

KD: Something that was going on at this point were discussions about the fact that what was once a profession that operated by standards was transforming into a profession that operated by rules. The phrase "cookbook" came up, and you're talking about a book, so the analogy is an apt one.

JTB: Yes, the intent was to be helpful. The thing that happened, of course, was that the SEC enforced these and said that financial statements filed with them had to follow the principles developed by, first, the Committee on Accounting Procedure and then the Accounting Principles Board. This was in an accounting series release, ASR4, and it said that financial statements had to conform to the generally accepted accounting principles.

And so the accounting firms, in doing audits of financial statements, obviously, had to see that the rules were followed. And there were constant demands for, you know, how do you do this? How do you do this? So that was the origin of the interpretation process.

Phil Defliese, in talking about the creation of the FASB, to the council of the AICPA, pointed out that there was an interpretation process now that would have maybe stopped a lot of the diversity in practice that happened. I mentioned that business combinations got to part-purchase, part-pooling. There was nothing that ever said you could have part-purchase, part-pooling. But that was a practice that just came up, and he pointed out that an interpretation could have quickly stopped that. The APB itself did a couple of those kinds of things, omnibus opinions, dealing with a number of issues. I believe ten and twelve are the two opinions, if I remember correctly.

KD: So it sounds like there was some intent to narrow the scope of all of these interpretations and to really bring some order out of the chaos. Is that a fair assumption?

JTB: Yes.

KD: In any event, it didn't work to the extent that pretty soon there's discussions about moving into a different model. Tell me a little bit about that process.

JTB: Okay. The problems largely originated with Opinion 16, business combinations. There were two major issues: business combinations, diversity in practice, and what kind of financial reporting should be done. Marshall Armstrong, as AICPA chairman – he had been an APB member and then he subsequently became chair, I think his title was president at the time -- but anyway, the senior elected official of the AICPA, it would now be the chair. He brought the managing partners and technical partners of the top thirty-five CPA firms together to talk about how to deal with this. And out of that came the creation of two studies: the Wheat study and the Trueblood study. The charge to the Wheat Committee was how could the Accounting Principles Board be more efficient?

Frank Wheat had been an SEC commissioner and then had returned to Gibson, Dunn & Crutcher, Los Angeles law firm, largely securities. Frank had done a study at the SEC, which he had done very efficiently, and the AICPA decided that they would engage him to head this study on how the APB could be more efficient.

KD: Did you talk to the Wheat Committee?

JTB: I met with them for a dinner meeting in New York and spent dinner and maybe a couple of hours being interviewed by them.

KD: What kind of things would they ask?

JTB: Just what kind of experiences I'd had, what did I think. Actually, Roger Smith, who was CFO of General Motors, was a member of the Wheat Committee. I recall he spent a great deal of the time talking about their acquiring an interest in Isuzu and all of the process that they went through. So it was not all just me that was in that interview. But at any rate, the Wheat Committee concluded that the way that the APB could be more efficient would be to go out of business and be replaced by the Financial Accounting Standards Board. And where the APB had varied from eighteen to twenty-one members, they recommended a seven-member board, four of whom would be practicing CPAs, and the others drawn from industry and academe and so forth.

KD: Right. Now did Marshall Armstrong ask you to come into the FASB?

JTB: Yes. The Wheat Committee went through a very extensive process and put its report out one year after the charge was made. The AICPA appointed a committee to put this all together, and Marshall was a member of that committee. The AICPA asked him to become FASB chairman, and he became chairman in November of 1972. He went to Phil Defliese and asked who he might bring in from the AICPA staff, and Phil recommended me and I moved over as the first technical staff member.

He also hired Mike Pinto, who had been Len Savoie's executive assistant at the AICPA. Mike had been a manager in Price Waterhouse in Newark, and Mike had directed the Wheat study, staffed the Wheat study, and was a very good manager. So Marshall hired him as the administrative director. The Wheat Committee also said that there should be a research department. Marshall wanted an administrator there and hired Ron Patton, who was then at VPI and was headed to become dean of the Business School at the University of Maryland.

But Marshall had been impressed by the notion of the technical advisors that many APB members had, and so he wanted FASB members to also have technical advisors. So each of the seven board members had a technical advisor, and this was a fairly senior person. I was named the senior technical advisor. The group were all CPAs; there were three PhDs, one assistant dean, so a fairly high-level technical group. The idea was that the board members would define policy, and the technical advisors would deal with all the implementation issues, sort of the same thing that had been going on in part at the APB. It didn't work that way.

KD: What way did it work?

JTB: Well the thing that happened, the board put seven projects on its agenda. This was as a result of a meeting with its advisory council, who recommended what the projects should be, and Paul Pacter and I spent an evening drawing up the list, and then the board met for two days and selected the seven items to go on its initial agenda. And each board member, in effect, became a project manager – he had a project to run. His technical advisor helped and one or two members of the research staff also helped.

So you had these seven projects going, and Marshall had me start on the first one, which was what is now known as the Conceptual Framework project. I did a fair amount of work on it and then later the problems started coming in. As I mentioned, it was initially thought that the technical advisors could deal with these implementation issues. But the board didn't want to deal with any kind of other issues. It had seven projects, it had seven big projects. It was drafting discussion memoranda, it was holding public hearings. The board members really didn't want to deal with anything that took time away from what they were dealing with, their big projects.

A void kind of came in. Sandy Burton was chief accountant at the time, and so Sandy was dealing with an awful lot of stuff. Sandy put out more accounting series releases while he was chief accountant than all of the prior chief accountants had put out together.

KD: Why was he doing that?

JTB: Well, there were issues. Also, Sandy was an activist. Sandy liked to see things get done.

KD: Would that have caused tension with the FASB? Because, essentially, it would seem to me he was sort of taking the lead away from the FASB.

JTB: It created tension with the accounting firms. They were getting second guessed a lot. The thing that happened was that the AICPA said that somebody had to deal with this, and they wrote a letter to the FASB, to Marshall Armstrong, and said that someone had to deal with these problems. So Marshall decided to reorganize the staff, and he named most of the technical advisors as what were known then as project directors – what would now be project managers – and one or two members of the research staff.

Ron Patton had not been managing anything as director of research, and he decided to go back to academe and went to the University of Connecticut as dean there. Marshall asked me to head up the technical staff, and he renamed it the Technical Activities Division, so there was no research division any more. Paul Pacter was the assistant director. Some of the board members were still directing their projects and this was a very tough thing. I really disliked trying to deal with major projects. And this letter came from the AICPA and said that the FASB had to deal with a couple of issues. Also, there had been a number of letters coming in to the effect that, because the FASB didn't have a research division, it wasn't doing research, which was not at all true; that hadn't changed a bit.

KD: Who was doing the research?

JTB: Well, the staff was doing the research. The project directors were doing this, and they had a research staff. So you had essentially the same thing, except board members were no longer, for the most part, directing the projects. A few of them were still involved in projects that hadn't gotten done, but mostly they were debating the issues. And so Marshall asked George Staubus, from U.C. Berkeley, to come in as director of research and me to continue as director of technical activities. He also started the FASB Fellow Program; we called it the practice fellow program back then. And I had a couple of project managers or directors and a couple of practice fellows who would do this work and we could get other staff as well.

KD: What was the intent of the Fellows Program?

JTB: It was copied from the SEC. Sandy Burton created the Professional Accounting Fellow Program at the SEC. And when this issue of the FASB dealing with things came up, I called a number of the people that I had been dealing with – technical partners at the accounting firms – and asked them to come to New York for a meeting to try to resolve what to do and asked Clarence Sampson to come, as well. And during luncheon at that meeting, Ray Groves of Ernst & Ernst, back at that time, suggested to me that the FASB ought to start a similar kind of program.

So I took that suggestion to Marshall, and he said, "Well, Ken Johnson had suggested a similar thing, but Marshall had said they'd have to work on major projects, and Ken wasn't willing to do that." Marshall thought about it and decided that he wanted to have high-level people come in as practice fellows. He wanted people who, just before they would become partners in accounting firms, for example. And so he started it as, in effect, people who the firms had decided should become partners later on. We initially asked firms to send people, then it became a competitive process. But that was the start of the Fellow Program.

KD: Did it turn out to bring an advantage to the firms? Were the repercussions positive then?

JTB: I think the Fellow Program has been extremely good for everybody involved. Two professional accounting fellows – Lynn Turner and Bob Herdman – have gone back to the SEC as chief accountants. At the FASB during the time that I was there, and this was for about twenty-three years, we had over seventy fellows who worked for me, and two of them became chairmen of AcSEC, the Accounting Standards Executive Committee, which was the senior technical accounting committee at the AICPA, and one is now chairman of the FASB, and they've all gone to quite responsible positions.

The way the Fellow Program worked while I was there – I don't know that it's still working the same way now – but it's still in being, but I would assign a number of technical issues to each fellow, and they'd be responsible for answering technical inquiries on that. I'd also assign them certain projects that the AICPA was working on, usually industry kind of issues, and so they'd be responsible for following all of those. And they got a very diverse experience in the process. It became very competitive, and the firms would sometimes send in a couple of candidates. We got up to as many as five fellows per year, and that was an awful lot of turnover, because they were there only two years.

KD: At the same time?

JTB: Yes.

KD: The fellows are doing a good bit of the work.

JTB: You had two kinds of projects at the FASB. You had major projects, and then you had everything else. And the "everything else" was dealing with answering the telephone on technical inquiries, following projects that were being done at the AICPA. Answering questions on the telephone, you'd get calls from the SEC, and so the FASB fellows and the SEC fellows were working together a great deal, and it was not uncommon to have two or three telephone calls in a single day about a single question. And then they would call people in the firms and that kind of thing.

KD: Give me a sense of the scale of all this. I take it that you're overseeing the routine side rather than the special projects side?

JTB: Yes.

KD: How big was your group? How many people did you have working in that area?

JTB: We probably had as many as a half a dozen of the – and these are all senior people – fellows and project managers.

KD: And was it about the same on the special projects?

JTB: No; much larger. I might mention, by the way, that I always viewed what we were doing as really just kind of keeping a finger in the dike to let the major stuff get done. I always thought that it would be great if the Conceptual Framework could get done, and you'd have answers. As it turned out, there was phenomenal demand all the time for interpretations, amendments to deal with practice problems, and this led to the cookbook that you're talking about.

KD: I'm intrigued, because you talked about the fact that the Conceptual Framework had landed in your lap at the very beginning, is that right?

JTB: Yes. I was the first person to work on it.

KD: Tell me a little bit about what was behind that. That, of course, was a fairly well-known project.

JTB: Well the Trueblood Committee, which was appointed at the same time as the Wheat Committee, was to answer this question about what financial reporting should be. And as part of my work I met with Bob Trueblood, and he said that this was the most frustrating thing he had ever done. Bob was the senior partner of Touche Ross. And the committee members simply could not come together.

As I've heard the story, Oscar Gellein – who was a member of that committee – Bob Trueblood passed away from cancer, and Oscar said, "You know, we ought to find a way," and Oscar had the great ability to ask questions. Oscar seldom answered a question, but he could ask questions that made you come to the conclusion he wanted you to reach. Oscar Gellein, by the way, had studied for a PhD at the University of Texas, and he had been a professor at the University of Denver. It got in very tough straits and he was called back by the president to try to get them out of that.

In the process, he met John Queenan, who was the partner in charge of Haskins & Sells, and he hired Oscar to come to New York to head their research department. Oscar, by the way, the first audit he ever did was General Motors.

KD: That's pretty good. The Conceptual Framework – tell me a little bit about what you were able to get done when that was still something you were working on.

JTB: Okay. Well of the seven projects, the board had decided on six, and part of this was combining two or three things into one. But at any rate, they had decided on six projects and Don Kirk said, "I think we have to take up this thing that the Trueblood Committee is doing. We have to show a commitment to start in that fashion." And there was some resistance to doing that. Many people thought Bob Sprouse, who was the academic on the board, proposed that project. But, actually, Bob didn't favor it. He thought the Trueblood Committee ought to finish its work and then the FASB take it up.

Don was persuasive, and so this became Marshall's project. Marshall had me start, and the start was to go interview a lot of people who knew a lot about a lot of things. I met with quite a number of people in the accounting firms, people who had been on the APB, and just got their views on what this project ought to deal with. And then, ultimately, this got passed over. When we had the first staff reorganization, it got passed over to another of the project managers.

KD: The obvious question is, what accounts for the long span of that project?

JTB: You have a hodgepodge of rules. Trying to reconcile all of those into one way is extremely difficult. And the Conceptual Framework is trying to decide what the rules should be. You have this ongoing tug between fair value and historical cost that is underlying everything. You know, you can even take very simple things like inventory. Should it be FIFO or LIFO? You get very different answers. Those are both historical cost approaches. Replacement cost becomes a fair-value type of approach.

KD: Does it boil down to philosophy, really?

JTB: Yes.

KD: Did you have a sense that it was going to be this complicated when you went around asking questions?

JTB: Yes [laughter].

KD: Anything else you can bring out about the Conceptual Framework and that project?

JTB: Not really. I really don't enjoy working on major projects. I have done enough major projects of my own that I get frustrated having to spend an inordinate amount of time researching things. I've never felt, for example, that the ceiling opened and the tablets were handed to me and I had the answers. I really was better at trying to interpret what the answers want you to do.

KD: All right, let's look to another kind of a turning point. In the mid-seventies the FASB is becoming subject to the same sorts of criticisms that the APB had been. And Congress suggests that maybe the SEC should start setting standards. What was the effect at the FASB?

JTB: Well you had both Moss and Metcalf, and I assume you're talking about Metcalf. I was staff on the response to the Metcalf committee. The Metcalf Report, in essence, said that corporate America influenced the accounting firms; the accounting firms influenced the FASB. Therefore, corporate America was directing what the rules should be. And the oil and gas controversy was going on, and the board had a deadline to address oil and gas accounting. And the trustees of the foundation told the board not to do anything on the Metcalf Report; that they would do the response. And so the trustees immediately turned to the law firm of Sullivan & Cromwell, and had Bob Hiden, who was an attorney, deal with this.

KD: The trustees being the Financial Accounting Foundation, the FAF?

JTB: Yes.

KD: Okay. Is this the first instance in which they would step in and tell the FASB to do something or not to do something?

JTB: Yes, they were prohibited from dealing in technical issues. Their charter did not let them address accounting matters. But this was, of course, not an accounting matter *per se*; it was who should set standards and whether the FASB was inordinately influenced by corporate America. The response to the Metcalf Report found that the FASB had, in fact, done more that the financial analysts had proposed than what corporate America had proposed. Another thing you find is that accounting firms have a lot of different clients, and different clients want different answers. And so the accounting firms are torn in trying to reach one answer, as well.

KD: Did you interview people, talk to the firms and corporations and things to do this response?

JTB: No. As I say, Bob Hiden directed the response. But largely, this was analyzing all of the standards that had been issued and the comment letters that had come in, like on the discussion memorandum, the public hearing, the exposure draft, and analyzing what people had proposed or companies had proposed as the solution and then tracking what the FASB actually did.

KD: Okay. But what you're saying is that the real picture was considerably more complex than Congress and Metcalf suggested?

JTB: Certainly was. The SEC didn't want this job either, I might point out. They had plenty. They really had a full platter. The chief accountant's office was having to deal with this stuff and they found it much easier to apply somebody else's rules than to try to make up the rules themselves. Making up rules is very controversial.

KD: Did that event shape the way the FASB operated or the way it issued the rules after the fact?

JTB: The board got a lot more input. From the very first, you had a three-tier structure. The Wheat Committee recommended a foundation to oversee, raise money, and appoint board members. Then you had the board itself, and it was to operate independently. And then you had a large advisory council, roughly thirty or so members that would meet periodically. The Wheat Report called for it to meet with the FASB chairman; Marshall said we'll meet with the full board. So the advisory council has met, generally, quarterly in a full-day session with board members to talk about priorities and whether they're doing what they should do.

The other thing that happened is that the trustees did an oversight review periodically – usually something like every three to five years – and they would make recommendations as to what the board should do. One of these that you'll want to get to eventually is the Emerging Issues Task Force, I assume. And that came out of one of the reviews by the foundation. The issue was largely standards overload, this cookbook of all the new rules that are coming out in profusion.

So the Foundation did a review and issued a report dealing with standards overload. There was one sentence in the report that said that the board should find a way to provide more timely guidance – that's an almost exact quote. Don Kirk was then chairman, and he was livid that a report on standards overload should say something like that. And he said, "Does it mean more guidance? Does it mean faster guidance? Does it mean more guidance faster?" We couldn't get an answer. And so he said the board is not going to deal with this. And he appointed a really super blue-ribbon committee.

He tapped Bob Thompson, who was currently chairman of the Financial Executives Institute, to head it. He had been chairman of the corporate reporting committee of FEI. And he also appointed the chairman of the AICPA. He appointed two former chairmen of AcSEC, a chairman of the American Bankers Association. He appointed Kathy Wriston, who was an attorney – her husband was Walter Wriston, who was chairman of Citicorp. But this committee was to deal with this question of providing more timely guidance.

KD: Was that all there was to it? Was it just this report by the trustees, or was there something larger in the background here in the early mid-1980s?

JTB: There was, from the time the FASB came into existence, how to deal with the myriad of questions that were coming up. Investment bankers are some of the most creative people in the world. And investment bankers came to us and said, “If you'll just tell us what the rule is – we don't want to get around your rules, necessarily. Just tell us what the rules are, and we'll create the products to deal under the rules.” One investment banker group came to us and said, "Some of our products only have a ninety-day life," and you can't deal with that kind of thing.

And so you had constant questions coming up as to how to deal with these new transactions. I recall walking into the SEC – this was in the late seventies, I guess.

Clarence Sampson was chief accountant, and Clarence handed me something and said, "What do you think of this?" It was a prospectus for something known as Chatsworth Funding, and it was the first special purpose entity. And it was unique, except it was already in existence. This kind of thing was used in the governmental area. You have all these revenue bonds that are issued for government projects.

Well, this was taking the revenue bond approach and putting it in corporate America. And so you could take all these projects and put them off balance sheet. And they call for a small equity; I think the SEC finally said it had to have at least 3 percent equity, which was based on what banks typically had back in those days. But the equity was irrelevant. The first equity was given to the agent that wrote the insurance. The second one was given to Columbia University.

The equity didn't mean anything; it was all the debt. And, of course, you've had this huge explosion of SPEs, still going on. Enron had over 900. Well, those are phenomenal kinds of problems, and somebody had to deal with that. And the problems came up faster than the board could deal with anything in its extensive due process.

KD: So were you involved then, did you sit in on EITF meetings?

JTB: Oh yes.

KD: Tell me a little bit about that.

JTB: Well, let me if I may, go back to how the EITF was created. Bob Thompson, a vice president of Shell, had Bill Ihlanfeldt, who was an assistant controller at Shell, work with me. So Bill and I and a couple of project managers met with all sorts of people and all the accounting firms, corporate entities, everybody who had any interest in this process.

Then the committee held a public hearing, a two-day invitational public hearing at the Plaza Hotel in New York, and took input there. Then they met as a committee to try to deal with this, and I was asked what to do. I said, "Well, I can't answer what you should do, but I can tell you the problems you have to answer."

KD: What was on the agenda during this two-day committee? Was it the shape of the Emerging Issues Task Force? What was being discussed?

JTB: It was really how the FASB could do this. And the AICPA had the Accounting Standards Executive Committee. One of the problems there was that no more than five of the Big Eight could be on the committee. This came out of the Moss-Metcalf stuff. So you had no place that everybody could sit down together, and you had to have the SEC. The SEC had to be a part of this. At the time, accounting firms would go to the SEC and try to get the SEC to put out an accounting series release or accept this treatment or whatever. So it was a negotiated process to a large extent.

But at any rate, out of this meeting they recommended creating the Emerging Issues Task Force. It was to have all of the senior technical partners of the Big Eight, corporate representatives, and have the SEC and small accounting firms. In other words, it was to encompass the people that knew about the issues. And the key was you had to know what the issues were, what the problems coming down the pike were. The FASB took this recommendation, and they put it out for public comment and finally adopted and set up the Emerging Issues Task Force.

There were over a dozen members, maybe fifteen members of the initial Emerging Issues Task Force. It met in the sunshine; all meetings were public, all materials were public. Initially, we met in New York City at a hotel conference room, and the meetings were exceptionally well attended, much better than most FASB meetings were attended. Anyone could bring an issue, and you had to prepare an issues paper, and then anyone could put supplements to that issues paper, but all of this material had to be prepared at least a couple of days before the discussion.

The discussion was in the sunshine, and the EITF reached a consensus on an answer when no more than two members objected. That's a very high level of confidence. It didn’t mean you like the answer, but it means you can live with it. Every meeting was attended by the chief accountant of the SEC with privileges of the floor, which meant he could object to anything and that would kill it. The director of research and technical activities of the FASB, initially Jim Leisenring and later Tim Lucas, were chairmen of the EITF, and I was there.

And then we had a fellow assigned to each issue. The issue got presented to the task force, they discussed it, and when the chairman felt that they had a conceivable answer, he'd say, "Who would object to a consensus that –" and if no more than two objected, we had a consensus.

We had two board members, at least, in attendance at every meeting: the director of research, me, the person who was the expert on this on our staff, and so we had an opportunity to object. We reported to the board about the EITF meeting, and the board itself could object to anything. So you had an awful lot of high-level veto power over what the EITF did. But the big thing was that the EITF found the issues before they became big problems. And so the EITF was the most intense activity. I've sat in hundreds of meetings of standard setters: APB, FASB, AcSEC, and this was the most intense thing that I have ever been in.

KD: Is it the structure of it, or is it just the fact that these are emerging issues? What made it so intense?

JTB: Well, you had to anticipate every possible answer. The FASB participants had a meeting in advance of the EITF meeting where we sat around – we had maybe a dozen people: project managers, practice fellows, FASB Fellows, research staff, sitting around. One person's responsible for bringing the project, identifying all possible answers to it, identifying what we can't live with.

This was an intense discussion in itself, in closed session by the FASB participants. The SEC had a similar kind of meeting of the chief accountant's staff. Then the day before the meeting, we had a long telephone conference between our staff and the SEC chief accountant's staff. And, in essence, we tried to identify, “What can't we live with here?" And that was the approach. Now, ideally, you'd want to get the best answer you can, but it really comes down to not having a tremendous amount of diversity in practice until the FASB can deal with this in an organized, systematic, big fashion.

KD: What was the EITF's greatest accomplishment during your career?

JTB: I'd have to say just the whole process. I can recall things where you had leasing issues, where people from Ford Motor Company came and made a presentation. At the time 85 percent of all Lincolns were being leased. So this meant that Ford had to – and not just Ford; all car manufacturers – had to sell a product twice. They had to sell it by leasing it, and then they had to sell it by selling it. So you had all kinds of accounting issues around that. I recall that was a very intense session. And these things would go on for three and four meetings. I mean, they didn't get resolved immediately. The audience was often packed. You'd have a roomful of investment bankers and lawyers, accounting firms; EITF meetings were exceptionally well attended.

KD: Did internationalization or harmonization issues come into your side of the FASB?

JTB: I was involved in them; they were not my responsibility. One of the things, for example, was David Tweedie, who was then chairman of the International Accounting Standards Committee, before it became International Accounting Standards Board, and the head of their foundation, came to meet at the FASB. One of the ideas that they took back was the

Emerging Issues Task Force. Jim Leisenring and I explained how the EITF worked, and then we had an EITF meeting one day while they were there and they observed it.

I think probably David Tweedie may have asked Bryan Carsberg, who was their director of research, to look into an EITF for the IASC. Bryan had been at the FASB, by the way, back during the price-level controversy. But at any rate, the IASC created an EITF. That's not exactly what they called it. And the IASB has one.

The other involvement I had on international was, I was in Washington at a meeting with Walter Schuetze when he was chief accountant of the SEC, and someone came to meet with him and he asked me to sit in the meeting. And the person was urging Walter to have the SEC adopt international standards, and I was an observer. I took the gist of it back to Norwalk to the FASB, but didn't actually say anything, but Walter rejected the idea at that time.

But my involvement has been on the periphery. I have a little association now. Paul Pacter, who was heavily involved at the APB and FASB in the early days, was with Deloitte Touche in Hong Kong, and he followed the IASC and IASB. Had probably the most extensive website of their stuff, and he was recently appointed as a member of the IASB, and he and I email each other. This is social, not technical. But I know that he's there; he's in London for a two-year period now.

KD: Well, is there anything else that we should talk about? You pretty much went right down my list.

JTB: Nothing that I think of particularly. It was an exciting period in my life, although I'm very pleased to be out of it. Glad I wasn't in the trenches the last dozen years.

KD: That's for sure. Were there any substantial changes in the FASB? Anything where you could say that the character of the FASB changed from the very beginning to '97 when you retired?

JTB: I retired June 30, '97. Well, the notion of having the board becoming smaller, the trustees considered taking it down to five members. They did not do that during that time. Did it later and they've now decided to take it back up to seven. The staff has been extensively reorganized since I left, and I really don't have contact with them now.

I will mention one thing that we haven't talked about. At the fiftieth anniversary of the SEC, I did a presentation at the University of West Florida, the Mary Ball Washington Lecture Series. I talked about the APB, the creation of the FASB, the SEC, and so forth. And I gave my reasons that I thought the FASB was created. One was, I thought, that corporate America wanted a bigger voice in the rule making. They had two members on the Accounting Principles Board, and if you could take the eighteen down to seven, two members would be a bigger voice.

Also, I thought the accounting firms thought that it would be a whole lot cheaper to give – and they were limited to $50,000 a year. Each one of the Big Eight could give $50,000 a year. And they had senior technical partners dealing with the Accounting Principles Board, and they were spending an awful lot of time. They had two or three partners and managers dealing with APB stuff, and so they thought it would be a lot cheaper to turn this over to another group.

Actually it turned out that their involvement is much more extensive now. They have somebody on the EITF, they have somebody wanting to get on every task force the FASB does. They write comment letters. APB members never wrote a comment letter. Why write a comment letter? You get up and talk in the meeting. So I think it's interesting that at least my view of why the accounting firms were willing to turn this over, and that wasn't unanimous. But certainly I think they didn't think that one out well.

KD: That's often the way things work out – unintended consequences. Well, thank you very much. It's been great.

JTB: Thank you, Ken.

[End of Interview]