Securities and Exchange Commission Historical Society
Interview with Paul Pacter
Conducted on July 12, 2011, by James Stocker

JS: This is an interview with Paul Pacter for the SEC Historical Society's virtual museum and archive on the history of financial regulation. Today is July 12, 2011. I'm James Stocker. We're talking at The Intercontinental The Barclay Hotel in New York City. Welcome, Paul.

PP: Thank you, James.

JS: Why don't you tell me a little bit about where you're from?

PP: I'm from New York City, so I'm back home at the moment, although I was born and raised in the Bronx, not here in Manhattan.

JS: Were your parents accountants?

PP: Oddly enough, yes, and they met in accounting class at City College. My father was a cost accountant – today they say managerial accountant – with a small manufacturing company. My mother – although after she had children, she never worked again for many years – she was a bookkeeper for what used to be called Book of the Month Club. It was a book club. They met in accounting class at City College.

JS: I figure a lot of people would remember that. Did you father work with a large firm or have his own business?

PP: No, he worked for a manufacturing firm called Burndy Corporation. They made electrical components.

JS: Did you know from a young age that you were going to be an accountant?

PP: No, quite the contrary. In fact, I had made up my mind when I was going off to college that I wanted to study the law or possibly teaching. But the law was my plan. My parents suggested that before going off, I should take some aptitude tests, which I did, with a psychologist. We had by that point moved to Stamford, Connecticut. And this psychologist said, "The last thing you want to be is a lawyer. You want to be an accountant." I said, "Really? I'm surprised, but okay." So when I went off to university, I told them even before I got there, "I'm going to major in accounting."

JS: Where did you go to college?

PP: My undergraduate was Syracuse University, and graduate school was Michigan State University. You could see I liked the cold weather.

JS: Right. (Laughter.) So you started off as an accounting major at Syracuse?

PP: I did.

JS: When did you decide that you wanted to do a Ph.D.?

PP: It was really toward the end of my undergraduate days. I was interested in both accounting and my original, second love of teaching. I said that would be something I'd like to pursue. I went straight off to graduate school. I did not work after undergrad. I had identified four or five universities where I might want to go for a Ph.D. I went out and visited all of them. They were all Midwest schools, except I think went down to Baruch here or City University. But I decided on Michigan State University for a number of reasons. One is that they offered me a good financial incentive as a graduate student to go there. Also, it was becoming, at that time – we're talking the mid-sixties – a respected university in the field of accountancy.

JS: Did you write a dissertation?

PP: I did write a dissertation. My dissertation was on accounting at small, predominantly black colleges in the southern U.S. There was some funding for that from the Department of Education of the U.S. government. I ended up visiting about forty or forty-five such small universities or colleges. My dissertation involved their own internal recordkeeping and their financial statements, and what kind of information they provided to potential donors and to the government, who were their main sources of funding.

JS: How long did you spend in the graduate program?

PP: I spent four years in the graduate program.

JS: And right away afterwards, you started teaching at New York University.

PP: Yes. I finished in December 1967 at Michigan State and immediately began teaching at New York University in their graduate school of business, which in those days was down in the Wall Street area. It has since relocated to Washington Square.

JS: How long did you stay there?

PP: I stayed a little under two years. I really began to say to myself, "I don't know how one could teach such a practical subject as accountancy without actually having practiced." So I took a job with what in those days was the number nine biggest auditing firm in the U.S. after what then were the Big Eight firms. The firm I joined was Hurdman & Cranstoun. Even though it was not one of the Big Eight, they audited some fairly large companies including Union Carbide, Grumman Aircraft, Avon Cosmetics, some other pretty good-sized ones.

JS: Did you feel like doing a Ph.D. had prepared you for the real world of accounting?

PP: I did. At Michigan State University, they had a very practical bent. Although I think I got a very good graduate education there, it was rooted in real world accounting practice, auditing, financial reporting, looking at real world financial statements, and trying to make some sense out of them, and identify shortcomings, maybe more so than, actually one of the universities that I interviewed as a potential graduate student -- University of Chicago. As I recall, they didn't make me an offer, but I would have had a very different type of education, I think, had I gone there.

JS: Now around this time, you were also a staff member at the *Journal of Accountancy*.

PP: As soon as I started teaching at NYU, the *Journal of Accountancy* hired me on a one- or two-day-a-week basis to be consulting editor. Strangely enough, even though that journal is published by the American Institute of CPAs, in those days neither the publisher nor the editor nor the news editor, nor any of the other technical staff people had an accounting background. So my job was to write news up front. At that time it was a monthly, and they had current news. Also to do periodical reviews of issues in accounting that were written up elsewhere, and then, not book reviews really, but reviews of practical issues that were published about accounting in other journals.

JS: That sounds like a good learning experience.

PP: It was a wonderful learning experience. I continued that even after I started with Hurdman & Cranstoun. They allowed me to continue to do that, in less time, perhaps a day a week or a half-a-day a week.

JS: After you arrived at Hurdman & Cranstoun, did they offer you any sort of training, or did they just send you off to clients right away?

PP: No, they had a very strong internal training program for new staff. I mean, the fact that I had a Ph.D didn't really matter. They still sent me off to the basic training. After I started working there, they asked if I had an interest in working as the staff assistant to their national technical partner. National being that the firm had offices in New York, Newark, Syracuse, and Chicago. Then they merged with a firm on the west coast, but it was not really a national firm as we might think of today with offices all over the U.S., let alone the world.

In any event, they asked if I would go to work as a staff assistant for the national technical partner. His name was Charles Hellerson. I did. Chuck Hellerson almost immediately was appointed to the Accounting Principles Board which was the AICPA's accounting standards setter. At that time, until FASB was created in 1973, the APB was the U.S. accounting standards setter. My boss was a member, and I guess I became his bag carrier.

JS: And so began your involvement with accounting standards.

PP: And so it began.

JS: Did you work on any other clients before you were assigned to the technical partner? Go out on audits or anything like that?

PP: Yes, I did. I went out on audits.

JS: What sorts of clients?

PP: Union Carbide, for example. There were some audits, but also a good amount of reviewing audited financial statements, just as any audit firm does today. Sit down and do a cold review of draft financial statements and raise questions. Then sit down with the audit partner on that client as well as with the client themselves.

JS: Was this SEC work or was it –

PP: It wasn't necessarily SEC work. Some was of course for the larger clients, but there were plenty of non-SEC ones. A very similar kind of work but naturally when you're doing SEC work, then there are a lot more issues that come up. But it was both SEC and non-SEC.

JS: So after you started working with the senior technical partner, were you involved in the APB issues like pooling of interest and investment tax credit that were going on at that time?

PP: Investment tax credit was earlier than my involvement. That was actually 1962. The APB first started in 1960. They lasted until 1973, but the investment tax credit issue of 1962, just two years after they started, kind of signaled the beginning of the end of the Accounting Principles Board, unfortunately. At that time, the U.S. economy had slowed down. This was the early sixties. Congress wanted to find a way to get companies to invest in factories, in machinery. So they passed a law that said if you, a company, buy qualified machinery, which was quite a broad range of machinery, you can take, in the year you buy the equipment, 7 percent of the cost as a credit against whatever you might otherwise owe as your income tax.

So if you bought $1 million of new equipment, you would get $70,000 off your tax bill. The accounting question that the APB faced was, how do I account for that $70,000? Is it immediately a reduction of tax expense in measuring net income, or is it spread over the life of the equipment? Let's say if it had a ten-year life, then take $7,000 a year as a reduction of tax expense for ten years. The APB, almost their first pronouncement was, "Spread it, $7,000 a year for ten years."

Companies wanted, of course, to reduce tax expense the full $70,000, the whole amount, in the year you got it on your tax return. Companies ran to Washington and complained,

saying here Congress wanted to encourage investment, but the Accounting Principles Board was not letting companies reflect the benefit of that encouragement all up front. The Accounting Principles Board's answer was, you will get the credit all up front, and we're not going to affect the cash flows relating to your tax credit. But we think the better accounting is it's more like a reduction in the cost of the machine you purchased, which means less depreciation over the life of the machine.

The SEC immediately reached what I guess is probably a political decision that they would accept it either way. You could take it immediately against your tax expense. In other words, take it through earnings immediately, or spread it. So the APB had no choice but to issue – the first opinion was their Opinion No. 2. Then in 1964, they had to reverse themselves, and it was kind of an embarrassment. That's why I started to say it was the beginning of the end of the APB.

JS: And the end of the end was probably the pooling of interest issue. Is that fair to say?

PP: Yes. There were a few other little issues along the way that were problematic. One of which was, in general, how to deal with conglomerates, which were on the rise at the time. Users of financial statements said, "If I had a single-industry company like an auto company, I could compare that with its competitors and do some analyses. But once I have these conglomerates, then I need line of business information, geographic information." The APB resisted that. The best they could come up with on that topic was a statement of encouragement. Meanwhile, the SEC was actually taking the

initiative, and they are the ones that issued – it wasn't an accounting standard, but it was an SEC release that said, "We would like our large listed companies" – I forgot where their cutoff was – "to disclose information by industry revenue, information by industry and by geographic area." The SEC did what the APB did not do.

And then, finally, pooling of interests.

JS: So were they working on pooling of interests when you began to assist the senior technical partner?

PP: Yes, they were. That ultimately became APB Opinion 16 which was issued in October 1970. I began working with Hurdman & Cranstoun in I think '69. It may have been '68, but they were working fast and furious on accounting for business combinations when I was there.

JS: Do you think that the people on the APB were concerned about the credibility of the organization or its continued existence? Were they aware of how controversial of an issue this was?

PP: They were aware of how controversial it was. Remember, in those days, the APB worked in private. They were not public meetings, their agenda papers were not public documents. It's quite different from the way things changed just a few years later when FASB was created.

JS: Did staff members attend the meetings? For instance, assistants to board members, or when the board met, was it just the members of the APB?

PP: Each board member could bring one technical advisor to the meeting. There were eighteen APB members, so there were usually eighteen technical advisors. Maybe a few did not have a technical advisor. Plus the AICPA themselves had staff. The APB had a staff director named Richard Lytle. Reed Storey, a fellow who I admire very greatly, was the research director for the Accounting Principles Board. And there were other AICPA staff.

I think they understood the urgency of business combinations, but you have got to remember that when the APB took over in 1960, it took over from a committee that had existed for twenty-five years called the Committee on Accounting Procedure. The thinking when setting up the new APB was, "We're going to put on that board the senior technical partners or even the senior managing partners of the large accounting firms in the U.S., at least the Big Eight, maybe one or two others."

The research staff, Reed Storey and other staff, would come up with what they felt, following their research, was the technically superior answer. The managing partners would all bless it by adopting it as APB opinion. It would have clout. Companies would have no choice but to follow. When it got to pooling of interests, the managing partners

met a lot of resistance from their clients. They were, in part, technical people but also, in part, political people.

The APB was just unable to reach a decision to abolish pooling, even though certainly history has shown a majority of its members wanted to do that. In those days, you needed twelve out of the eighteen APB members to issue an opinion. They couldn't even get twelve to issue Opinion 16, which included poolings, but tried to rein them in a bit.

They ended up having to split the standard into two standards. Opinion 16, which got twelve votes for business combinations including pooling. Opinion 17 to force amortization of goodwill, and as you probably know, it was over a period of forty years. That's not very much per year, and you can see the politics of the answer.

JS: When was the writing on the wall, do you think, for the APB?

PP: There was a lot of criticism in the popular press over the APB's inability to quickly resolve the pooling of interests question. The AICPA appointed a committee to – and I haven't looked at the charge to that committee lately, but I'm sure it was something along the lines of how best to restructure the AICPA's effort to set accounting standards to meet a public need. The committee was chaired by former SEC commissioner Francis Wheat, and came to be known popularly as the Wheat Committee.

I am sure the AICPA fully expected and the accounting profession fully expected the Wheat Committee to come up with some sort of restructuring that would keep accounting standards setting within the AICPA. After all, it had been there since the 1930s when they created the Committee on Accounting Procedure, and had been recognized by the SEC since 1937 as the standard setter.

Much to the surprise of the whole accounting world, the Wheat Committee ended up proposing that the AICPA give up its role as the standard setter, and instead a new independent board be created known as the Financial Accounting Standards Board. That board to be represented not just by auditors but also by preparers of financial statements, users of financial statements, and academicians.

JS: How did the firms feel about that?

PP: To be honest, I was not plugged in enough to be able to say how the firms felt. Their public posture may well have been one thing, and their internal view as part of the accounting profession may well have been something different. Publicly, they all agreed to support the Financial Accounting Standards Board, and in fact initially agreed to come up with the lion's share of the funding. I don't remember now, but I think each of the Big Eight firms agreed to put up $400,000 a year. It may have been a smaller sum, I don't remember, but whatever they were putting up with was the majority of the funding of the FASB.

JS: How did you come to join FASB as a staff member?

PP: One of the members of the old Accounting Principles Board was a fellow named Marshall Armstrong. Marshall Armstrong came from a very well-respected, but small accounting firm based in Indiana named George S. Olive & Company. Marshall was their firm's technical partner and a member of the old Accounting Principles Board, as I said. When FASB was created, a new parent foundation was created. Their first job was to identify the board members. The first thing they did, they named Marshall Armstrong as the chairman.

I knew Marshall from my time at the APB as Chuck Hellerson's bag carrier / staff assistant. Marshall asked me if I would be interested in joining the staff. When they set up the FASB, they had seven board members. Each board member had one technical advisor. I became technical advisor to the chairman. Each of the other six had a technical advisor. And then there was a senior technical advisor to the board at large.

JS: Now at that point, did the FASB already have its headquarters set up in Stamford, or where was it on that?

PP: The board members were appointed in the autumn of 1972. I don't remember when the trustees or the foundation were appointed, but obviously it would have been earlier than that, sometime in 1972. The Wheat Report was published earlier in 1972, so a lot was happening. In terms of headquarters, the trustees of the Financial Accounting Foundation

had to make, of course, the basic decision. Coca Cola Company, interestingly, offered attractive land and possibly a building in Atlanta. That was an attractive offer of free space. But I think the trustees decided it either should be New York or Washington. The implication of Washington would be that this is something of a government agency, a national government agency, or New York, the financial center of the country.

They decided not to locate in Washington because of the appearance that it would really be a government agency. They decided on New York, but then began looking at the price of rent, and looking at the commitments they had for funding. Also, Marshall Armstrong came from a small town – Indianapolis – not so small, but not a big city. His inclination was that the board should not be located in a big city, but should be near New York. The trustees agreed. They decided that the headquarters would be in Stamford, Connecticut. There it remained until the late 1980s when it relocated to Norwalk, Connecticut, where it is ever since.

JS: So at this time, did the board already have procedural rules in place, or was it still developing that sort of infrastructure?

PP: They had nothing, basically. I joined the staff on March 1, 1973. The first board meeting was actually in April 1973. The board had already been appointed. The board members began relocating to Connecticut in early '73. They did hold a get-acquainted meeting, in late March. They didn't even, at that time, begin talking about potential agenda topics. They did meet in April '73 and put together a long list of agenda topics. Honestly, I

didn't go back for this interview to see if they made their agenda decision in April, or whether it was a month or two later. It was quite quick.

JS: I was curious about whether there was any model they looked at in terms of how the board would function with public meetings and such, or if they just came up with that on their own?

PP: The board did not have public meetings until some years after 1973. The first meetings were closed to my recollection. I think it was about four or five years later that meetings were actually opened to the public. They did, early on, develop rules of procedure. In fact, I participated in drafting the first rules of procedure. That's their due process procedures. These were approved by the trustees, the Financial Accounting Foundation.

They provided for appointing a steering committee for each major project. The steering committee, together with the board, would develop a discussion paper. They called it, in those days, a discussion memorandum. They were intended at that time to be neutral documents taking an issue, identifying all of the sub-questions for that issue, the alternative answers to each of those sub-questions, the pros and cons of each answer, and end it there.

That was the first step in the project. The discussion memorandum would be published for public comment. The second step was public hearings. The board conducted,

literally, public hearings usually at hotels here in New York City where people were invited to make presentations. Board members could question the presenters.

JS: Was there active participation in that from the beginning?

PP: There was very active participation, and as projects got more heated – more political – then participation got more active. The third step was an exposure draft. That's where for the first time, the board would indicate its leanings. Then written comments, and finally the final standard.

It didn't take too many years that people complained about those rules of procedure, the first two steps. The complaint was essentially that until the board's leanings were known, it was difficult for the constituents to comment. Commenting on a discussion paper that laid out all of the issues and all of the pros and cons of each issue did not lure people into wanting to take a stand. It's true to this day; both for FASB and the International Accounting Standards Board, people want a target to shoot at. So they wanted leanings published.

The public hearings were in a similar vein. People would present their one point of view or another point of view, but there was limited focus. So the rules were changed as time went. The discussion memorandums came to be called invitations to comment, or even preliminary views documents, in which there was a target to shoot at.

JS: Tell me a little bit about the dynamic between the board members in these early days. Was it one big happy family or were there philosophical or other divisions?

PP: When the board first started in 1973, there was nothing in the pipeline. They decided on seven initial agenda projects. Each board member was assigned one topic. That board member became sort of a super project manager. One of those initial seven, was accounting for research and development costs. That was a project that was strongly encouraged by the SEC. Why? Because in those days, there were three main aircraft manufacturers in the United States – Boeing, McDonnell Douglas, and Lockheed. All three of those, of course, were SEC registrants. All three of those, it just happened coincidentally, in the early 1970s, were in a major competitive race to develop the first wide-body aircraft.

Lockheed was developing the L-1011, and Boeing, the 747, and McDonnell Douglas, the DC-10. They put hundreds of millions, probably billions, into the development of those wide-body planes. Boeing, I think it was Boeing, charged all of their billions of cost to expense. Lockheed capitalized everything, and I think McDonnell Douglas was somewhere in the middle. The SEC said, "You, FASB, should debate whether those kinds of research and development costs are assets. If so, should they be capitalized? We think it's a perfect case that all three of those companies ought to be doing it the same way. They're in absolutely identical circumstances."

It would have been lovely if FASB could look to the Conceptual Framework definition of an asset to say whether the research development cost constituted an asset. Sadly, there was no Conceptual Framework to look to. Indeed, one of the other reasons for the demise of the old APB was two research reports they published called *The Postulates of Accounting* and *The Principles of Accounting.* It was their attempt to begin to develop a Conceptual Framework. The APB received those research reports. They were brilliant. They studied them, and they issued a public statement by the old APB saying they were too theoretical to be of any practical use at the time. The old APB had kind of pooh-poohed a Conceptual Framework. So when FASB started, here they are faced with this R&D question, is research and development cost an asset? They had nothing to go on.

At the same time, the SEC said to FASB, "Another one of your early projects ought to be another problem we are facing. Should self-insurance reserves be recognized as a liability and accrued little by little?" There were a large number of companies in the U.S. did not purchase insurance, particularly property/casualty insurance. They self-insured except maybe for catastrophe-level losses. So maybe one oil company that had 5,000 gas stations around the U.S., they did not buy fire insurance. They said, "We will self-insure."

Their competitor purchased fire insurance from an insurance company. The insurance that they purchased, they charged insurance cost to expense. But the competitor, another oil company who was self-insured, said, "Well, we don't want to take the big hit. We only have a fire once every couple of years. We don't want to take the hit all when it

occurs. We want to spread the cost little by little." The same issue actually arose for insurance companies when they insured for a catastrophe. Let's say they insured an airline for an airplane crash that might only occur once every ten or twenty years. Should the insurance company recognize the big hit when the loss occurred, or should they accrue the self-insured liability, insurance companies call it catastrophe reserves, little by little before the loss occurred?

JS: This whole issue went back to the definition of liabilities.

PP: And we didn't have a framework to help us.

JS: So from these problems came the idea of the Conceptual Framework.

PP: Yes.

JS: Did the FASB staff come up with that term – Conceptual Framework – or was that already in existence?

PP: It was not in existence, and I will say that two people, one of, not the original FASB board members, but the first replacement, a man named Oscar Gellein, one of my heroes in the accounting profession, he and I came up with the term Conceptual Framework.

JS: Before that, they had broad qualitative standards and things like that.

PP: Yes, exactly, and postulates and principles. None of it was written down. If you actually look at the basis for the conclusions of both FASB Statement 2, which I wrote, on R&D, and FASB Statement 5, which is titled "Contingencies", but really deals with contingent liabilities or liabilities of uncertain amount and timing, you will see the germs of a Conceptual Framework. FASB debated in both of those projects, what is an asset and what is a liability?

Regarding the assets, they said, "We know that some research ultimately will prove beneficial to a company. But at the time you have to account for those costs, you don't know." They argued in the basis for conclusions for FAS 2 that all research and all development costs should be charged to expense because the test of an asset is future benefits in terms of probable cash flows. At the time you are doing your research, you don't know whether you have probable cash flows. Likewise, the test for a liability is probable cash outflows.

JS: So you had this done before the Conceptual Framework was even firmly in place.

PP: Before it was even started.

JS: Let's just go through the Conceptual Framework quickly and talk about some of the work you all did on that. In early 1974, I believe, the FASB created a committee that would deal with the Conceptual Framework.

PP: Yes. They had a committee for each of the first projects, and that was one of them.

JS: Were you on the committee?

PP: No, the committee was outsiders. It was all outside experts. Oscar Gellein chaired the committee. I was one of the staff people. But Reed Storey was the principal staff person. Reed had been the research director for the old APB. After a cooling-off period of a year or two, FASB hired him and he became the staff person in charge of the Conceptual Framework. The credit all goes to Reed and Oscar, none of it to me.

JS: Now the first Concept Statement was the *Objectives of Financial Reporting*. What did that one say?

PP: That identified, "Who are we writing the financial statements for?" You could argue financial statements are used by the managers of a company to run their business. Financial statements are used by tax authorities and by government, used also by prudential regulators to regulate banks or insurance companies. Or they are used by cost of service rate regulators, such as for a public utility, electric company, a phone company, a gas company, to decide how much to allow them to charge. What the objectives part of the Conceptual Framework said, the very beginning, is that none of that is FASB's turf. That belongs with government or the tax authorities or the owner of the business, who can decide what information they want to run their business or to regulate.

FASB's objective is to serve investors, creditors, and lenders. Those are the people who we are preparing the financial statements for. Outsiders to the business who provide resources directly to the business, but have to take the information they get. That is who we are preparing financial statements for. That was a very controversial issue at the time, but it was agreed. Now here we are, forty-something years later, and both the FASB and IASB jointly last year reaffirmed the objective of financial reporting exactly that way. They tinkered and polished at the edges, but reaffirmed that the objective is outside capital providers.

JS: Now the FASB approved a couple of other concept statements while you were there. The second one was on qualitative characteristics?

PP: Yes, because the first objective one says, "It's to produce information that's useful for investors, lenders, and other creditors." Then they said, "Well what do we mean by useful?" That's a very broad, general term. It's like motherhood – you can't argue against usefulness. But the qualitative characteristics said first the information has to be relevant to an investor's decision. Relevant is that it helps them forecast cash flows to the company, which ultimately means cash flows to them. Secondly, the information should be reliable. It should be neutral and free from bias and various other characteristics. Those qualities zeroed in or supported the objective of useful information to investors and creditors.

JS: It was only in the third Concept Statement that you actually got to the elements. Things like the definition of the asset and the liability.

PP: Yes. The third step was to define the basic building blocks of financial statements. What's an asset? What's a liability? What is, in FASB's concept statement, revenues and gains and expenses and losses? I want to point out something. Revenues and expenses are defined in terms of assets and liabilities. A revenue is an increase in assets resulting from the operating activities of a company. A gain is an increase in assets resulting from one-off kind of transactions. Likewise, expenses are outflows of assets arising from operating activities. Why am I making this point? My point is, forty years ago, they defined revenue and expense in terms of assets and liabilities.

The implication of this is that you cannot have on the balance sheet deferred whatchamacallits. The balance sheet should only have things that meet the definition of an asset. Will it provide cash to the business in the future? Some companies wanted to do to smooth their earnings, and to do that you've got to have deferred stuff on the balance sheet that doesn't meet the test of an asset or liability. By defining revenues and expenses in terms of assets and liabilities, that predicted the direction the FASB and then later the IASB would go in their various standards of accounting for revenues and expenses.

JS: So the FASB was laying down these philosophical principles of how it was going to go about its work. How did the business community react to that? Were they interested in the Conceptual Framework project, or not very?

PP: The quick answer to your question is not very. Why not very? Because the Conceptual Framework itself was not a financial accounting standard to which SEC Accounting Series Release No. 150 applied, nor the code of the ethics of the AICPA. The Conceptual Framework didn't apply.

JS: When you go through and you read some of the business press from this period, there even are occasionally hostile comments about this project. I'll read you a quote. This is from 1981 from Lee Seidler who was an accounting consultant at Bear Stearns at the time. He said, "The Conceptual Framework is a giant waste of time. It's an ego trip of giant proportions to think that mortal accountants are going to come up with a framework against which they test their rules." Was there a lot of that sort of sentiment out there?

PP: I'm very surprised. I know Lee Seidler very well. He's a good friend of mine. He was an academician before he went to Bear Stearns. He became one of the United States' leading financial statement analysts. He won *Institutional Investor* magazine awards year after year. I'm surprised that he would say the Conceptual Framework is a waste of time. I think he may have said that because, as I was saying earlier, there's no requirement to follow it. I certainly agree that accounting, as a social science, is different from physical sciences. In a physical science, you go into a laboratory, you bubble a test tube

somewhere, and you can try the approach "truth." Whether it's in chemistry or physics or biology or microbiology, whatever it is, there is some truth.

Science tries to find that truth. In accounting, there is no such thing as truth. Truth is what in those days the seven members of the FASB sitting around their table in their wisdom felt is the best accounting answer. Now why I'm surprised that someone would say it's a waste of time is that if you don't have a framework on which those seven FASB members agree, or the fifteen IASB members agree, each member is going to approach an accounting issue with his or her own personal Conceptual Framework. As board members change, the underlying concepts are going to change, and that is going to result in ad hoc, inconsistent standards.

I think you have got to have a framework. A framework will never be a machine where you input some raw material and you push a button and out comes the accounting answer. It can never work that way no matter how good your framework is. But it will provide some guidance, mostly to the board, to the standard setter. It is not for the preparer. The IASB has actually taken the Conceptual Framework to a higher level than FASB in this sense. Under IAS 8, which is our standard on accounting policies, we have a hierarchy of accounting policies. First of all, we say in IAS 8, if you want to assert that you comply with international financial reporting standards, you must follow every one of our standards.

If we do not have a standard that directly addresses your accounting question, you must develop a policy that results in the most relevant and reliable information. In the absence of a standard, try to draw an analogy. If you cannot do that, you must look at the framework. So under IFRSs, the framework becomes a part of the standards. The FASB are not quite there yet.

JS: So around this time, in the early 1970s, were you following the efforts to set up an International Accounting Standards Committee in London?

PP: Starting in the late 1960s, the AICPA along with the Canadian professional body and the UK accounting standards body actually began a group called the Accountants' International Study Group. That started around 1967. Their objective was to publish very short research studies comparing accounting standards in the U.S., Canada, and the UK, and maybe suggesting how those three countries could better converge their standards. Now as we just talked about a few minutes ago, the Wheat Committee got going in the early seventies and in '72 recommended that the AICPA give up their accounting standards role, and a separate, independent FASB be created. They started in the spring of 1973

Much to the surprise of Marshall Armstrong, the new chairman of the fledgling FASB, one month or two months into its existence, we receive a press release from the AICPA that says the American Institute of CPAs has joined eight other countries in signing an agreement to create the International Accounting Standards Committee, and to use their

best efforts to get the IASC's new standards, which are known as international accounting standards, adopted in their home countries. No sooner had the AICPA given up their accounting standards role by getting rid of the APB and then turning it over to FASB than they signed an agreement to support international accounting standards in the United States. So needless to say, we were a little surprised at that.

JS: Did you think that was an effort by the AICPA to reassert its authority over the standards or do you think that they just were not in communication with the FASB?

PP: I think it was a recognition by the leadership of the accounting profession around the world that globalization had begun. Globalization of capital markets and business markets in general.

JS: During your undergraduate studies or your PhD studies, or any of your work experience up to this point, had you dealt with accounting standards of other countries or anything like that?

PP: Personally I never had, because securities markets were very insular, within a country. Companies look for capital within their own country and investors look for investment opportunities within their own country.

JS: Did you personally ever work with the IASC during this period while you were at the FASB working as an assistant?

PP: No, not that early at all. Initially, the goal of the IASC was to develop a body of standards that at least could be used for cross-border offerings. So that hopefully the U.S. SEC would recognize those standards at least for foreign registrants who came to the U.S. Likewise, those other eight sponsoring countries would do the same. Whether they extended it to domestic matters, that would be each country could decide. Roll forward thirty years, so now it's already 2001. You know how many of those nine countries had adopted international standards as part of their requirements? Zero. Germany was one of the nine, and they permitted a few of their multinationals to use international standards, but it was permissive and it was a handful of companies. But basically, none of them did.

JS: That might say something about the effectiveness of the IASC at the time.

PP: I think they produced a pretty good body of standards. I went to work for them beginning actually in 1993. I had left FASB in 1984 to go into local government in Stamford, Connecticut. I became, it was called commissioner of finance, but it was the chief financial officer of a city with a budget annually of about $300 million, 3000 employees. It was kind of a small city.

JS: Tell me about that experience. How was that as compared to your work at the FASB? Had you had any experience with government accounting standards at all?

PP: In the late 1970s, I became the executive director of FASB's parent foundation, the Financial Accounting Foundation. FASB and the foundation had gotten involved heavily in Washington affairs. The oil embargo of the early 1970s led to the SEC's rejection of FASB Statement 19 which was a successful effort standard, which I wrote by the way. It led to three congressional committees investigating why in the world is the SEC, which has statutory authority to prescribe the form and content of financial statements filed with it, why are they not doing that and instead turning to the private sector.

FASB was heavily involved in government affairs. At that time, FASB, in the late 1970s, made a public statement, "We are going to start setting standards not just for business, but for nonprofit organizations and governments, state and local governments." Well the nonprofits did not complain very much, but all hell broke loose at the state and local government level. The U.S. has about 100,000 state and local government units and agencies. They had been setting their own accounting standards. They said who in the world is FASB, a private sector body, to tell the government how to do their own accounting?

That led to about three or four years of negotiations between the Financial Accounting Foundation and various governmental accounting groups. The Government Finance Officers' Association, the National Association of State Auditors, Comptrollers, and Treasurers. There's a county association. The bottom line of that was the creation of a Governmental Accounting Standards Board under the Financial Accounting Foundation. I was involved along with someone else from the U.S. General Accounting Office in

setting up this GASB. When I say setting up, I mean our trustees made all the decisions, but my role with this other fellow from the GAO was to flesh it out in terms of a charter and operating procedures and so on.

JS: Was there any legislation that provided the basis for the GASB, or was it just the agreement between the FASB and the GAO?

PP: It was agreements. There was no legislation required. They reached those agreements. At that time I got involved in local government in Stamford, Connecticut. I had already gotten involved on several city boards and commissions. I chaired the Human Rights Commission. I was a member of the charter revision commission. When there was a mayoral election in 1983, I got involved in the campaign of one of the candidates. This person won and I became the commissioner of finance of the city of Stamford. I had four two-year terms.

I got to love government accounting. I enjoyed that work very much. It was a different type of accounting from business accounting. It was not so much accrual accounting, at least at that time. I got to the city of Stamford, and I saw we ran two nursing homes. These were really businesses. Most of the money came from support from federal and state government programs. I asked the simple question, "How much is our accounts receivable from the federal government?" They were about a year behind in paying our bills. So we would send the bill to Medicaid mostly, and some other Medicare programs. I learned from our city officials, nobody knew.

We did not have a record of the receivables. Then I said to our traffic department, "I looked at our financial statements. How about parking tickets outstanding?" They said, "It's around $5 million." I said, "What do you mean 'around'? Don't we know to the penny? What's on our balance sheet?" The balance sheet did not have the receivables for our parking tickets either. It was on a cash basis just like the collections for our nursing homes. And other things like that. I got kind of an eye opener.

JS: I don't think that Stamford is the only community in the United States that has these problems.

PP: That was government accounting in those days. I looked for depreciation accounting and I found nothing was depreciated, but instead debt service including the principal payments on debt was deducted as a surrogate for depreciation. Anyway, I got involved with the GASB. I become the vice-chairman of their advisory council for the first ten years of its existence. I was on their pensions task force, and I enjoyed that work very much. I went back to FASB beginning of 1991.

JS: What did you do there at that time when you went back in 1991?

PP: In 1991, FASB had already been deliberating a project on consolidations, consolidated financial statements, since 1982. It was nine years later. They had not reached a decision. My first assignment was to write a discussion memorandum, a discussion

paper, laying out the alternative ways you could do consolidation, and what are the pros and cons of each, what are the implications of each for the financial statements?

JS: How was that received?

PP: Let me just point out that we're doing this interview in the year 2011. FASB still has not finished the consolidation standard. I would say in 1991 or 1992 when I finally finished that document, it was received with more than a ho-hum, but the FASB board divided on the two main approaches to consolidation. One was called a parent company approach and the other was called the entity approach. The two methods of accounting differed significantly on how you measure goodwill and whether the minority interest is a liability or equity.

JS: Were you involved at all with the stock options issue at this time? That was a very heated issue.

PP: It was a very heated issue. I was not involved directly. FASB issued an exposure draft proposing that stock compensation, stock options and other kinds of share-based payment, be recognized as an expense. That was vigorously opposed, but particularly by high tech companies who used share options as the lion's share of their compensation of their employees because they didn't have the cash to pay them cash salaries.

Congress got involved, and in the end FASB had no choice but to back down. They issued the first FASB Statement 123 which encouraged accrual of share-based payment expense, but didn't require it. When they finally got around to finishing it, amending it about ten years later, it was the first time they required it, and only a handful of companies took the encouragement. My involvement was in doing some speech writing for the chairman of FASB trying to explain our position. Even, as I recall, writing a press release.

JS: Was that Ed Jenkins at the time?

PP: No, that was Dennis Beresford.

JS: From 1995 onwards, you were a fellow at the IASC. Were you working in London or in New York?

PP: I was working initially in Connecticut with some commuting to London. The reason I got involved was that I wrote the original FASB 14, which was on segment reporting, line of business and geographic disclosures. After doing that consolidation study in 1991, FASB asked me to do a review of Statement 14, fifteen years on. What kinds of segment information were being reported, how many segments, how much detail, what kind of information? I did a study for them, a research report. At that time, the International Accounting Standards Committee had a very brief standard on segment

reporting which didn't require anything. It just said some companies often report this, others often report that. That was it.

They saw the study I did for FASB, and asked me and asked FASB if they would allow me to do a similar study for the IASC, and FASB said yes. I did the study for them analyzing about a thousand international sets of financial statements, and what kind of segment information was there. They appointed a steering committee to work on their project. They hired a staff person who came from the Australian accounting standards board. He moved to London with his wife. I started going to the steering committee meetings. This fellow, who came from Australia, after one year decided to go back to Australia, and the IASC's project had just gotten off the ground.

The IASC leadership – the person's title was secretary general – asked if I would be interested in taking on the project as the project manager from the U.S., but going over to their board meetings from time to time. FASB agreed that I could do that. I started working on that project part-time from the U.S. Meanwhile, IASC decided to take on a second project on interim reporting, quarterly reporting and half-yearly reporting. In the U.S., that is essentially an SEC activity. It was one of the original FASB projects, but they made no progress on it. They issued a very brief pronouncement. Basically, in the U.S., interim reporting is SEC requirement.

At the international level, they started writing their own standard. At that time, so we're talking 1994, 1995 or so, IASC changed its secretary general. The new secretary general

was a fellow named Sir Bryan Carsberg. He had been on the staff of FASB in the U.S. for a couple of years. I got to know him. When he was hired at IASC, he asked if I would have an interest in joining their staff full-time, which I did. I left FASB and then I moved to London.

JS: What was going on in the world of international accounting standards at this time? I believe that there was an effort by the IASC and IOSCO to try to reach agreement on a set of core accounting standards?

PP: The IASC, in the 1990s, they well knew that nine countries twenty years earlier had agreed to use their best efforts to get international standards adopted, but the reality was nobody had adopted them. So the IASC, and Bryan Carsberg was a very astute leader, and he went to IOSCO, the International Organization of Securities Commissions, and reached a written agreement with them signed by the chairman of the IASC and someone from IOSCO, saying that the IASC makes a commitment to complete a core body of standards by 1999. The core included forty topics which were listed in this written agreement. IOSCO, for its part, said if IASC does indeed complete this core by 1999, we promise to use our best efforts to get them required in our member countries for cross-border offerings.

JS: This sounds like a very ambitious project, forty standards in four years.

PP: Yes, but as part of that written agreement, IOSCO went through the existing body of standards. In 1993, IASC had done a project to redo the standards, an improvements project. That project updated all of their standards. IOSCO went through and identified those that they were happy with. On these, they said IASC doesn't need to do anything further. They identified others for which they said some updating is needed. Then they identified additional topics in which there was no standard, and said you need to do these.

So it wasn't starting from scratch completely on those forty topics. Some, IOSCO said don't do anything, we're happy with what you've got. Others, bring them up to standard. And others, start from scratch.

JS: Let's talk about just a couple of those issues that were important at the time. At this time, the IASC and the FASB were both working on the subject of financial instruments. Were they cooperating closely on that, or was one sort of leading and the other following?

PP: They were not cooperating, and they were not doing their work jointly. I don't think I would characterize it as either leading or following. The IASC actually had a standard. IAS 25 was accounting for investments. What it said is, if you have short term investments held for trading, you either mark those to market or use lower of cost and market. If you have any other kind of investment, you could measure them at cost, you could measure them at fair value through equity, or you could measure them at fair value through profit or loss.

JS: So this is a very open standard, very allowing.

PP: Very allowing. And on top of that, it did not deal with derivatives which at that point had become huge already. Nor did it deal with derecognition. Securitizations and repos had become huge. While IASC did have a basic investments standard, it was not a strong standard. I must say, FASB was not in a much better situation. They had a standard on investments – their first one from FAS 15 dealt with troubled debt restructurings. They had FAS 114 on loan impairment. FASB did not have a standard on derivatives or derecognitions either.

JS: You had been involved in troubled debt restructuring, right?

PP: I was there when that standard was issued, but I did not work on it. Somebody else did. Remember the old APB had some confrontations with Washington with respect to the investment tax credit. The FASB's first confrontation with Washington was on troubled debt restructuring. It led to FAS 15. The confrontation there was with the Federal Reserve Board who did not want all their banks to write down a lot of bad loans to Latin America and elsewhere. FASB ended up issuing the statement that said as long as the undiscounted amount of cash flows – even if you had to restructure the debt, and you put off interest and principle payments years into the future – if the undiscounted amount of cash flows is more than the carrying amount of the loan, the bank doesn't have to recognize a loss. I don't think it was FASB's shining hour, but that was their standard.

Here we are in the mid-nineties, and FASB had a standard – something similar, again, nothing on derivatives, nothing on debt restructurings, nothing on securitization, derecognitions. FASB finally issued their standard on derecognitions and restructuring, FAS 125. Here we are back at IASC in London. They have pretty well finished most of their IOSCO projects by 1997 with the exception of financial instruments. They had three false starts. They had a proposal in 1994 on financial instruments that would have marked everything to fair value. It was called Exposure Draft 40, I think, E40. It was not well received, mark-to-market through P&L all financial instruments. Then they issued E48, I think it was, a similar mark-to-market proposal, not well received.

Then IOSCO split E48 into two, and they finished up financial instrument disclosures in the form of IAS 32 in 1995. They appointed a committee to try to come up with a comprehensive proposal for financial instruments again. A third document – it wasn't an exposure draft this time, but rather a discussion paper – was published by that committee in 1997, mark-to-market through P&L. It was rejected by the IASC.

So they had three failures by 1997. That third one was 1997. Now the IOSCO deadline is looming. It's a year-and-a-half down the road. The Secretary General of the IASC asked me if I would be interested in doing the financial instruments standard, but he said, "We haven't got time." He had, on the side, renegotiated the 1999 date with IOSCO to December 1998. Here we were in August 1997; we had nothing on financial instruments.

JS: What was the motivation for pushing up the date?

PP: I must say, I don't remember. I'm not sure I ever knew, because the written contract agreement with IOSCO said '99. There was a supplement to that which changed to December '98. I don't remember the political reason for that.

JS: It wasn't Y2K, right?

PP: No. It definitely was not Y2K. IASC said, "In fifteen months, how can we issue a comprehensive financial instruments standard where we have nothing?" We said let's take wherever FASB is, and at that point they had a mixed attribute model. Most financial instruments were carried at advertised cost. But those with a quoted market price where there's an intent to hold for trading, fair value through profit or loss. Also, by that time they had issued a derecognition standard, which was FASB 125, and they were part way through developing what became FAS 133 on derivatives.

I took on the project, and our very astute secretary general said, "You ought to start by writing a standard, taking all of FASB's financial instruments literature, and sending it to our board as one way we could do it." At our IASC meeting in October 1997, I presented our board with a 400-page exposure draft that they had no idea was coming. It was all of the FASB U.S. GAAP literature on financial instruments. It did not go down well with our board that we would be proposing U.S. GAAP to be international GAAP. They said, "Forget that. Develop our own standard." Well actually, I believe that the objective of

our secretary general, was to get our board to commit to doing our own standard, and get it done by December '98.

JS: Were there certain countries that were more sensitive about appearing to pass U.S. principles than others?

PP: I would say continental Europe was probably the least enamored of adopting U.S. GAAP as international standards. At about the same time, Europe was beginning to think about whether should they develop their own standard setter, or should they throw their lot in with IASs? They did not reach their decision on that until 2001, but they were beginning to debate that issue. It was pretty clear that Europe was going to say, "Let international accounting standards be European GAAP." That was all the more reason why they didn't want it to be U.S. financial instruments standard or any other U.S. standard.

JS: So what happened with the draft that you wrote?

PP: The first draft, that 400-page draft of U.S. GAAP was thrown in the waste bin. We began to develop our own in-house standard. We did not have the time, the luxury of appointing a steering committee, even though this may have been the most important project in the IASC's history. We just had to barrel ahead. We developed an exposure draft that was issued in June 1997. We had really seven or eight months to do that. It was a pretty good proposal. We knew the IOSCO deadline, the clock was ticking. I'm

sorry, it came out, excuse me, June 1998, not 1997. June 1998. The IOSCO deadline was six months ahead.

Our secretary general came to me. He said, "You've got to go out and market this in our member countries, the board member countries." Why? Because we had three failures before. We had the E40 fail, the E48 failed, and then the third 1997 proposal. He said, "We cannot have another failure." I went out and sort of did a road show. It was our first, what we call today, outreach that the IASB is doing heavily and FASB as well on their projects, to try to convince the member countries that it was in their best interest to finish the standard.

We actually took a vote at the IASC meeting in November 1998. That was the last scheduled meeting in '98 and it was not passed. But they said let's schedule a special board meeting in December '98. So that November one was in Zurich, Switzerland. The December one was in Frankfurt. Meanwhile, September 30, 1998, I fell in the bathroom of my apartment in London and broke my leg. I was trying to get to Zurich in a wheelchair, and it was quite comical, in a sense.

JS: I know those streets. There are a lot of cobblestones. Not fun.

PP: Yes, and the same in December. I didn't go anywhere out of the hotel. Just went from my hotel room down. The bottom line was in December 1998, IAS 39 was issued. Now here we are fifteen years later. It's still the law of the land. It's held up pretty well. The

weakest link in it is the requirements on recognition of impairment of financial instruments carried in amortized cost.

JS: Where did the idea for an International Accounting Standards Board come from, to replace the International Accounting Standards Committee?

PP: The impetus came from Europe's debate over what accounting standards should apply across the European Union. Their capital markets were growing. They knew they needed to have a common set of accounting standards. After all, the European Union started as the Common Market. Business rules should be common across Europe. Should they develop their own standards or should they rely on international standards?

They ended up, after their debate in their parliament, reaching a decision that there should be a common set of accounting standards for Europe and they should be international accounting standards. They acknowledged that the old IASC needed reorganization. It needed to go from a part-time board with limited resources, meeting three times a year, to a full-time board, meeting continuously with plenty of resources to take on the tough projects.

JS: About what year was this when this was decided?

PP: Europe made their final decision in 2001, but their deliberations began in the late 1990s. It was just around that time that the parent body of the old IASC – it was a foundation –

appointed a strategy review committee to consider how to restructure the IASC. The first proposal was a very European kind of proposal that there would be two bodies. One, a technical body to develop the standards, and then a political body made up of representatives of every country who used IASs that would also vote on the standards to decide whether to adopt them or not.

JS: Sounds like a recipe for gridlock.

PP: It was exactly that. It was a recipe for gridlock, and I must say that it was the U.S. Securities and Exchange Commission, and the leadership both of Arthur Levitt at the time and the chief accountants, even Lynn Turner, who said, "Look, that approach, a political approach to setting accounting standards, won't work." Our SEC commission thought about that back in the 1930s and said, "We don't want government setting the accounting standards. It really is a professional responsibility. We think you've got to set up an independent board." So that's how the IASB was formed. They set up a second strategy review committee. When the first proposal of a political approach didn't fly, they set up a second one, and they came up with the present structure.

JS: Were the SEC and the FASB concerned at all about the creation of the IASB, or was it something that they encouraged?

PP: I think FASB encouraged it. I'm not sure that FASB saw the IASB as a potential source of accounting standards for domestic U.S. companies. I think the setting up of the IASB

was in the context of accounting standards for cross-border securities offerings. Whether it would go beyond that to also apply to domestic issuers would be up to each country. I don't know whether FASB thought it was in the realm of possibility that IASB could become the standard setter for domestic U.S. companies.

JS: Why don't you tell me how you ended up in Hong Kong in 2000?

PP: In 1999, a gentleman came to work at the IASC from China. He was really on some sort of secondment. He was the president of a large university, the Shanghai University of Finance and Economics. His name was Tang Yunwei. He spent a year with IASC learning about how IASC worked and international accounting standards. He was a member of the advisory committee to the Ministry of Finance of China which has responsibility to set Chinese accounting standards. He went back to China, but he asked me if I had any interest in working with the Chinese Ministry of Finance on their accounting standards.

JS: Did they already have a body of accounting standards at this time?

PP: They were in the middle of developing such a body. They had some already finished; they had a lot of exposure drafts out. Thirty exposure drafts, few of them finished. They got a grant from the World Bank, which was given to Deloitte to be their advisors to help China take those exposure drafts and make them final standards. Deloitte was the one who hired me at the suggestion of this fellow from China, Tang Yunwei. Deloitte

suggested I should work for them based in Hong Kong, and going up to Beijing as needed with other Chinese staff from Deloitte and Hong Kong. It sounded fascinating to me, and I took the job, and it was a wonderful experience.

JS: Had the World Bank been involved in projects like this before, or was this the first time they had tried to help a country develop accounting standards?

PP: They are working with countries all over the world to improve their accounting standards. The World Bank has a program called ROSC, Reports on Standards and Compliance. In the accounting area, they have done ROSC studies and published reports that are available on public websites for nearly 100 countries. What they do is they go in, and they look at what standards are now required, and how could that be improved? Even if the best standards are required, what's the quality of implementation? They make recommendations for improvement. They have done those on many countries, including China – mostly developing countries. The World Bank has been wonderful, I would say, in bringing about improvements to accounting in developing countries and emerging economies.

JS: While you were working for Deloitte in Hong Kong, you also began working part-time for the IASB.

PP: I worked full-time for the Chinese project for four years, 2000 to the end of 2003. The IASB, for their first three years, spent their time improving the standards they had

inherited from the old IASC. Knowing that Europe had made the decision to require IASs for all of their 8,000 listed companies, starting in 2005, the IASB took on an improvements project. They finished it at the end of 2003, and they were then going to begin working on new projects, like stock options, for example, where they had no standard, and others. One of the standards they wanted to develop was a separate standard for small private companies. Why? Because unlike in the U.S., in most countries in the world, all or most unlisted companies must prepare GAAP financial statements and have them audited.

In the U.S., that's not true. Only SEC registrants and some regulated banks have to follow FASB GAAP, by law. Europe has eight million statutory audit requirement companies. For them, full IFRSs are an unrealistic level of standards, particularly as IASB improved their standards to make them suitable for public capital markets in Europe. I began working on a part-time basis for IASC, with Deloitte's consent, developing the small company standard. In the U.S., we call it private companies and most of the world would call it SMEs, small and medium-sized entities.

JS: Did you have a staff to help you out with the project?

PP: No, it was me, and on a half-time basis. What I did have was a starting point, which was full IFRSs. We started with all 3,000 pages of that. Pulled out the principles, developed criteria for simplification, namely, does the information help assessing short term cash flows, liquidity, and solvency? If yes, then that's how we would simplify. By 2007, we

issued an exposure draft, and in July 2009, a final standard. Now here we are, less than two years later, seventy-three countries have adopted it either as a requirement or as an option for unlisted companies. We're talking millions of companies. If you take all the listed companies and countries on stock exchanges that are members of the World Federation of Exchanges, including in the U.S. the New York Stock Exchange and NASDAQ, and you take fifty-two counterparts, we're talking under 50,000 listed companies.

If you take Brazil alone, unlisted companies, six million, that can use the IFRS for SMEs. South Africa, 400,000, and so it goes across the world. The number of companies we are talking about is staggering. We have got seventy-three countries that have adopted. In some, it hasn't yet taken effect. And some, it's required. Some, permitted. Some, for selected companies. But it's, I think, a great success.

JS: Now while you were working on this project, there was a bit of debate over the terminology that you were using, wasn't there? Some people prefer the term SMEs, and then for a time, the term was switched to private entities. Can you tell me a little bit about that debate?

PP: That's more humorous than substantive. In many countries in the world, anybody that's unlisted, they talk about them as small and medium-sized entities. That's a common term. The IASB, when they decided who this standard would apply to, they said anybody that's not listed and not a financial institution. But of course, that could be some pretty

big companies. In the U.S., there are some billion dollar companies that just are not listed. They're privately owned.

So the name SME, small and medium-sized, doesn't seem to fit them very well. We then changed from that at IASB to NPAE, non-publicly accountable entity. That doesn't roll off the tongue very easily. The slang is "nappy", which means in UK parlance, diaper, baby diaper, so nappies. That didn't sit very well. Non-publicly accountable is not a very good term. They've got some public accountability to meet health and safety standards. So that term wasn't good.

Then we went to private companies, which is the U.S. term. That doesn't work in China and other countries where government ownership of large segments of the economy is typical,l even down to tiny entities. So very small companies in China, it's not right to call them private companies because the national government owns them. Still, they want to use the small company standard. We went full circle back to IFRS for SMEs. Now here it's been two years and it has not caused any trouble.

JS: I've seen some articles that have talked about so-called micro-entities, entities that are very small for which even these efforts for SMEs may be too large and too complicated. Do you think there's any chance that a third body of standards will be developed?

PP: I think the first question that has to be asked is, who is requiring these micro-companies to prepare GAAP financial statements and for what reason? Is there a public interest

being served? It is not the IASB's decision any more than FASB can tell any company in the United States, "You must follow our standards." It's the SEC that says listed companies must follow them. Maybe some bank regulators say banks must follow them.

If a parliament in a particular country, or the accounting profession, or a regulator has told these little micro-companies with ten employees or five employees, "You have to prepare a complete set of financial statements," I think the first question is, what public interest is being served by doing that? Personally, I don't see any public interest being served.

The second question is, if a regulator or the government for whatever reason – and sometimes it's a political reason pushed by the accounting profession because it makes a lot of work for the auditors. If that's a requirement for them to prepare some set of financial statements, then the question is, is a simplified level of GAAP needed for these little micro-companies? To me, the answer to that question depends on what is going to be asserted about those financial statements? Do they fairly present financial position, results of operations and cash flows? If so, I don't think you can have a set of accounting standards that's five or ten pages long. You need the IFRS for SMEs which is 230 pages.

On the other hand, if all they want to do is a cash basis balance sheet and income statement with maybe one footnote or something, I personally think yes, a third level of standards could be and probably should be developed. Are you going to get that from 30 Cannon Street in London or 401 Merritt 7 in Norwalk, Connecticut? I seriously doubt it.

JS: A couple of final, really quick questions. During the 2000s, you also set up a very popular website, www.iasplus.com, perhaps not popular for everyone, but certainly for accountants involved in international accounting standards. Tell me the story very quickly about how that came about.

PP: This was done for Deloitte. We just had an idea that there ought to be someplace out on the internet where all sorts of information about international accounting standards was available. The old IASC didn't have much of a website, although I did that too, I taught myself the HTML and the graphics and how to do FTP. Deloitte said, "Why don't you set something up for IASs?" We opened shop as a free site. We opened the door in December 2000. Visitor numbers grew dramatically. When I left Deloitte in June 2010, we were getting 60,000 to 70,000 visitors a week – unique visitors. We had about 1,000 web pages. We had 4,000 downloadable PDF files. It was, and still is, the biggest website in a very narrow area of interest, international accounting standards.

JS: Paul, you're currently serving a two-year term as a board member of the IASB. What do you hope will be your legacy after two years? Of course, it's the whole board working on things.

PP: Of course, IFRSs are the product of the whole board, not any one member. My legacy, I hope – I want to kick start the Conceptual Framework. That has languished, sadly, at the international level. We did move a little bit on the objectives, but it wasn't too much

different from the one that the old IASC had adopted twenty-five years ago. We urgently need to deal with measurement concepts – what measurements are appropriate when. We need concepts of disclosure and concepts of presentation. We are debating other comprehensive income and recycling in every project. So I would love to say one thing – "I helped kick start the Framework."

I would love to finish up all of the very difficult projects that are now on the IASB and FASB's joint convergence agenda. If we can finish those by the end of my term, revenue and leases, offsetting impairment of financial assets, hedge accounting, insurance, and maybe one or two others, I'll be thrilled, and I'll have had a good career at the IASB.

JS: Paul, do you have any final thoughts before we wrap up, looking back at a long career?

PP: My only thought is I must just say out of respect for the U.S. SEC, they've been a great contributor to accounting standards. They have stayed out of the development of the standards. They've encouraged and prodded and commented. They've insisted on high quality implementation. For that I say I have the greatest respect for the commission and for their counterparts around the world. We don't want politics setting accounting standards. We don't want politicians setting accounting standards any more than I want them telling my surgeon how to do my surgery. Set the broad principles and let the private sector do the job. The commission has done that, and I thank them for that.

JS: Paul, I thank you very much for talking with me today.

PP: Thank you.

[End of Interview]