Securities and Exchange Commission
Oral History Project
Interview with Donald J. Kirk
Conducted on March 31, 2011, by Kenneth Durr

KD: Interview with Donald Kirk, March 31, 2011 in Greenwich, Connecticut by Kenneth Durr. Let's hit a little bit of the background. I know you went to Yale. I want to find out if you had a pre-existing interest in accounting at that point in undergrad.

DK: I did by the time I went back to Yale. My Yale time was split by four years of military service. When I first went to Yale in 1951, I really had no idea what I was getting into at university. I thought I was going to go into business and maybe that meant economics was a subject that I should take. I quickly discovered in the basic economic course that it really wasn't what I was looking for.

So I was adrift in my first two years. I couldn't decide what to major in, and I figured it was time to do something different. At that time, your only option was go in the military. I dropped out after sophomore year and went into a naval aviation cadet program, which required two years in college, which I had. I went through flight training and became a carrier-based jet pilot and served four years.

During that time, I had gotten married. I started to search for what it was I should do when I get out. The Navy tried to keep me in, but I had the G.I. Bill and said, "No, I think I'll get out." I had always intended to go back to Yale and I did, as a much more motivated student. No clear cut career path in mind, except I had taken a correspondence course when I was in the Navy in accounting. It was from the University of Maryland. It sort of intrigued me. The only reason I even did it was my father was a certified public accountant. I never had any involvement with it or experience with it at all, but it seemed to be something to try, so I did that correspondence course.

When I went back to Yale in 1957, I decided I was going to major in history but discovered that there were a couple of accounting courses in the economics department. I fit those into my schedule and even went to a local college at night to take a course in taxation. By the time I graduated, I only interviewed public accounting firms.

KD: Did you have a history degree?

DK: I had a history degree, yes I did. I had an awful lot of business type credits I had to take to qualify to become a CPA.

KD: So you put your resume out to all the Big Eight firms, I guess it was at this point?

DK: There were several that actually came to interview at Yale. Two that I was really intrigued with were Price Waterhouse and another firm, Arthur Young, since merged with Ernst & Ernst. They sent a couple of articulate recruiters. One with Price Waterhouse was a Yale graduate. I was intrigued, but I didn't want to go to full-time business school.

Arthur Young offered to put me on the payroll and send me to school in Chicago, the University of Chicago, for an MBA. Price Waterhouse said, "Well, there are plenty of schools in New York and we'll keep you in New York City and you can probably do an MBA at night," which is what I did do.

KD: Was that considered something that was pretty much you needed to do, get the MBA?

DK: I needed it, because at that time there were academic requirements to take the CPA exam. And I didn't have the course requirements.

KD: So you wanted to get into a firm and then deal with the MBA?

DK: Yes, I decided I really wanted to go to work full-time and then fit in the MBA. Price Waterhouse made it easy to keep me in New York City and so I started in the evening program right away. I went straight through, beginning in the summer of '59. I was able to schedule it so it was only two nights a week.

KD: You're doing this at Columbia?

DK: At New York University, NYU, which had its business school downtown Manhattan, which is where the Price Waterhouse office was. I chose to live on Staten Island. I took the ferry ride back and forth and so there was sort of great convenience, or lack of inconvenience to the work schedule commuting. I got the MBA done in June of '61.

KD: I imagine you probably got into auditing first off?

DK: Yes, I definitely went on the auditing staff of Price Waterhouse.

KD: Did that experience turn out the way you thought it might?

DK: Well, even though I had taken these two courses at Yale, and I had worked part-time for a CPA, who was a professor of mine while at Yale, I didn't have the slightest idea what auditing was all about. What I'd been introduced to were what were known as accounting principles, but literally nothing about auditing or what an auditing firm did. So right away I said, "Oh, my gosh," but Price Waterhouse had a one month's training program. I did that in the summer of '59. That, together with the night school courses I was taking, gave me a pretty good rapid introduction into what it was I was hired to do. By the fall I was out on a team.

KD: You moved into some pretty big audits early on. Paramount Pictures was one of them?

DK: I was the youngster on Paramount Pictures. The instructor in the summer course I took at Price Waterhouse nabbed me. He was the manager on that assignment and he picked me to go on that audit team. It was an incredibly good experience, both because the nature of the business was fascinating and the accounting problems were very intriguing.

You were dealing with an intangible asset of indeterminate value and life and a great many judgmental issues about, "What do you include in the cost of it, when do you recognize a loss on it? How does its value expire?" There were just loads of interesting theoretical questions.

KD: You would've had to be a movie buff too, to figure out what the values were and when they'd expire.

DK: It was a crapshoot. They used to think maybe one out of ten was a moneymaker. It involved many interesting people in management of the business, as well as very intriguing kinds of accounting and reporting issues. It was really a great training ground for me.

KD: As you moved along and built up your experience, did you end up getting slotted in with a regular client in the sixties?

DK: You mean that was an irregular client? (Laughter.)

KD: I know that was sort of an early standout. Did you stick with them all through the time?

DK: Actually, I did. I was in the New York office from '59 to '67. Throughout that time, I was involved in Paramount. I became what's known as a senior accountant and then a manager. Right up until the time I became a partner in 1967, I was involved with that particular client. There were many others, but that was the one that really was the training ground for me in many, many ways.

KD: Was that the biggest job?

DK: It probably was the biggest.

KD: It didn't fit in all the categories, I guess. You had to do more thinking?

DK: Very definitely. It wasn't just mechanics. There were intellectually challenging questions, topped off with unusual and sometimes difficult personalities. So in that regard, it was a good experience. I often said it was trying to find an honest voice, someone who would really level with one. I vividly remember one person there at Columbia that you could really count on, not at Columbia, at Paramount, for a straight answer.

KD: There were a lot of promoters?

DK: Oh, yes.

KD: What was the next step once you became partner?

DK: I became a partner in 1967. I had been with the firm eight years and before I became a partner, the then-senior partner of the firm came to me and said, "We don't do this. I've never done this before. But we'd like to make you a partner, but we'd also like you to transfer to Washington, D.C." I don't know if he explained at the time, but a short time before there had been a partner admitted who then resigned. It turned out it was because he didn't want to be transferred to where they said he should go. The senior partner might have said, "Well, we don't want that to happen, so here's a heads-up."

I said, "Well, I don't know anything about the Washington office, so let me go down and visit." So I did. There was one overworked audit partner in the office, one tax partner, Roscoe Egger, who later became the commissioner at the Internal Revenue Service. It was such an entirely different kind of practice from New York City, service companies, smaller companies. I could see that they needed help and I'd be busy. I wouldn't be carrying a more senior partner's bag.

With the understanding of the senior partner it was for three years, I said, "Okay, I'll go." So in '67, I went to Washington, D.C. and actually was there for three years, which fellow partners told me is very unusual, but they stuck to their word. I spent three years in that quite different environment than that of New York City.

KD: Then was it back to New York?

DK: Then it was back to New York. While I was in Washington, D.C., John Biegler, the man who was going to become the senior partner asked if I would join him on an audit assignment in London, which was the Royal Dutch Shell group of companies. It was a very unusual audit relationship. There was a partner from the PW U.S. firm; a partner from a United Kingdom firm, not a PW firm; and a partner in a non-PW Dutch firm. All three signed the opinion on the Royal Dutch Shell group of companies.

Most of the actual audit work was done by PW affiliates around the world. So PW took some comfort in the fact that a lot of the underlying work was done by PW people. The other two firms were a small U.K. firm and a Dutch firm, which ultimately became part of KPMG. It's the "K" in KPMG. It was a bit larger; it was a good-sized firm in the Netherlands. Biegler asked me to join him because he was destined to become the senior partner, and supposedly, I would succeed him on that assignment.

KD: Was he the one that had to sign with these other two firms?

DK: Yes he was.

KD: That must have been quite a transaction, sitting down and working through all that.

DK: The three partners and some key staff shared an office. It was back when most people smoked, so it was a smoke-filled room. Sometimes the Dutch partner and the staff would speak in their native language and we were never quite sure what they were up to and talking about. It was one of these very unique corporate entities and a very unusual three-party audit assignment and it didn't fit into anything I was doing in Washington, D.C.

It would take me away for anywhere from a minimum of four, maybe six weeks a year, to go to London. I had starting doing that while I was still in Washington, D.C. and so when I went back to New York, I continued with that relationship. That relationship sort of disrupted other responsibilities, because it was totally outside of the New York office routine, as it was outside of the routine of the Washington office. I had to fit other assignments, or the firm had to fit other assignments, around that obligation.

The motion picture companies started to come back on the scene and I took responsibility for Columbia Pictures and another, smaller, movie company. I think then they tried to make me the fine arts expert. I had the Metropolitan Opera and a few other such clients, which really wasn't my bag. But having gone to Yale, they thought I somehow knew something about the fine arts. So I was back in New York from '70 to very early '73. I got approached about joining the FASB sometime late in 1972. I joined as one of the original board members.

KD: Had you been watching closely as the APB fell apart there, or ran into the wall, so to speak?

DK: I was aware of several things. One was what were referred to as the go-go years of the 1960s into the seventies. In that atmosphere and being in Washington, I got assigned a lot of small companies which were frantically trying to raise money from the public and tried to keep them reasonably honest in their reporting.

I knew that there were all kinds of accounting issues and what I would think of as questionable accounting practices. I was aware of what the APB was doing, more so I guess when I went back to New York. I never had a technical responsibility in the firm. I never carried the bag for an APB member, but I was aware of what was going on. I had good communication, a good relationship, with a couple of technical partners in the firm and would occasionally register my disagreement with a firm position on what was going on on the APB.

The senior partner, the one who I did the Royal Dutch Shell work and that I took it over from, John Biegler—he succeeded Herman Bevis as the senior partner of the firm, and had been a member on the APB after Bevis stepped down. He then was followed by a much more technically minded member on the APB. I was aware of personnel or people who were on the APB, where they came from, a little bit about their firm philosophies. I knew more about PW's than I would say any of the other firms. So I was knowledgeable.

Because of all the things I've gone through since, looking back to what I knew then is a little difficult to construct, but I certainly knew that there were problems in the setting of accounting principles, no question about it. Something needed to be done.

In 1971 the pressures on the APB were very strong. They had gotten off to a very rocky start. The then-president of the American Institute said, in so many words, "Okay, we're going to take a fresh start with the Accounting Principles Board. We've had this Committee on Accounting Procedures in existence for twenty years and we need a fresh start."

KD: This is in the sixties?

DK: This was 1959. The thinking of the AICPA was, "We're going to get a fresh start. We're going to give a little more authority to this new group, the Accounting Principles Board. We're going to put the senior partners of the firms on the board; therefore we'll get buy-in or commitment. We're going to do what people have failed to do for years. We're going to do some research on what is a foundation for accounting principles and how to decide what's sound or unsound. So we're going to sponsor some research before we start."

It was an interesting contrast to what happened back in 1939, when there was a rush to solve problems. But in 1959 they said, "We're going to do research." They engaged a professor from Berkeley, Maurice Moonitz, who later became research director at the American Institute. He undertook a couple of research studies on the basic tenets for financial reporting. On the second one, Moonitz had, as a co-author Robert T. Sprouse, Bob Sprouse, who became an original FASB member; one of my favorite people, now deceased.

They issued these reports. Don't ask me exactly what they contained, but the APB rejected them. They said, "They're too radical, so we're not going to adopt these as the basis for accountability as we go forward. We've got issues to deal with," and so they started dealing with issues. In 1962 they took on an issue of accounting for the investment tax credit and that badly divided the Board. It favored spreading the effect of the investment tax credit.

KD: No flow-through?

DK: Correct. There was immediate outcry by the people who disagreed with that. The SEC jumped in and said, "We think there's substantial authoritative support for the flow-through method too." I think it was a year or so later, the APB went back to the subject in APB Opinion 4, reconfirmed that, "Yes, we think it should be spread," but also said, "There is authoritative support for the flow-through method, so it's okay, too."

So from 1959 through APB Opinion 4, they spent an immense amount of time with nothing to show for it. The APB just got off to the wrong start. The chemistry between some of those senior partners was awful. I know that was particularly so between the PW senior partner, Herman Bevis, and Leonard Spacek of Arthur Andersen. They were rivals, competitors, and so that didn't help. The APB later switched from the main honchos to the more technically oriented partners in the firms.

KD: Those honchos ended up having staff people who did a lot of the work.

DK: Yes, of course. They were all part-time people. Later, the APB accomplished a great deal, but it was catch-up. They produced a lot of pronouncements, but they could never catch up. By the time they got around to business combinations, that one was the nail in the coffin. They had issued two separate opinions and there were great divisions among the members. There were lots of dissents and qualified assents to those two opinions. Everyone was kind of getting fed up.

Finally in 1971, the Institute said, "Uh-oh." They commissioned two studies. One was headed up by Robert Trueblood, dealing again with the objectives of financial reporting. Okay, let's get some fundamentals in place. The second was structural and that was to look at the structure of how standards should be set, and was headed up by Francis Wheat, partner in Gibson and Dunn, a West Coast firm, and a former SEC Commissioner.

Marshall Armstrong was president of the Institute at the time those two studies were initiated. The Wheat study was of more immediate interest. You could relate to that. I knew enough about the history, about people trying to define the principles of accounting that I wasn't quite sure what might come of the Trueblood study, if anything. It was sometime in '72, I think, that the Wheat study came out. March of '72 is when it was finally issued. It was an extraordinarily thoughtful, perceptive document.

The main writer of that document was a man for whom I developed immense respect, named David Solomons. He was a professor from the U.K. originally. David Solomons was at the Wharton School and had an extraordinary ability to write clearly; gifted, a very gifted man. There were many other key people. Frank Wheat, obviously, was the leader of the group. It proposed a structure which the FASB emulated. There were some variations, of course.

KD: Did everybody in the profession sit up and take notice when the Wheat report came out and was there a sense that things were going to change?

DK: I think that's so. At least from my perspective, like I said, there was a crying need for change. The APB had lost its credibility. As witness other attempts at self-regulation, doubt develops about the objectivity of those who are in charge. Its part-time nature was criticized as well. I think there was great suspicion of the auditors setting their own rules. All professions start out like guilds and often develop rules thought of as being very self-protective, rather than having the public interest in mind.

KD: Within the profession was there a desire for more rules or more standards? Was there a sense that APB was not serving the auditors out there in the field?

DK: Yes, there was some of that. But there always was another school of thought: that if you just got some good, sound, basic principles, you wouldn't need many rules. Experience had shown that every time they tried to get some basic principles, they failed and went back to making rules. There were different schools of thought.

The Wheat study was dealing only with structure. Trueblood was dealing with the principles and objectives. This new board could take up Trueblood's proposals at a later date. It made immense sense to me that the people to be on this new board would be full-time, with no understanding about any future employment.

Of course, it boiled down to the politics of what's going to be the makeup of this board. The Wheat group obviously had a variety of people on it, one of whom was Roger Smith, who wasn't yet the CEO of General Motors. General Motors had a long history of interest and involvement in accounting, in part because a number of their CEOs had come up on the finance side. I think Donner did; Tom Murphy certainly did; Roger Smith certainly did.

Also there were representatives of a larger firm and two smaller firms on the Wheat study group. The biggest elephant in the room, however, was the American Institute of CPAs, because it was being asked to give up the setting of accounting principles. This was a reason for its being, in a way—obviously the AICPA was somewhat protective. The makeup of the original board was influenced by that historic connection. I believe the initial requirement was that four of the seven members had to have a public accounting background.

KD: They would come from one of the Big Eight firms, I guess?

DK: Well, it was unsaid as to where they might come from. Obviously they had the APB members and people who supported them. APB members weren't all necessarily from the Big Eight, but the Big Eight were the ones that could put their resources into the APB. But there was no definition of where they would come from.

KD: So how did you end up getting tapped for one of the seats?

DK: I had mentioned my connection with John Biegler. There was nothing personal about the relationship, strictly professional. He was senior partner of the firm, had previously been on the APB, and was on the Wheat study. He was among the initial board of trustees that was to oversee this new FASB. At some stage late in '72 he approached me to ask if I might be interested. I was interested. I was intrigued by the intellectual challenge. The political challenge it would face I underestimated. I was ready to think about what I wanted to do in the next stage of my life. So I said I would be interested. That started it.

The senior partner of Arthur Young, Ralph Kent, I think had been designated as the first president of the foundation, the Financial Accounting Foundation. John Biegler just said, "Well, go over and see him." I think he said, "Don't back off on this job." I had no actual intention of backing off on it at all. When Ralph asked if I'd be interested and I said, "Yes and if you're asking me, I'd say yes, I'll do it." It didn't take much explanation at all about it. I was ready to do it.

KD: Tell me about what you were faced with when you came in and sat down with the other six folks and you got a blank slate and a chance to start over. What were the priorities? How did you split up the work?

DK: We had obviously a list of things that the APB hadn't finished or suggested we deal with. Sometime in February, maybe even before people had officially gone on the payroll of whatever this organization was going to be—an office space had been found, but it was being renovated. We used a conference room in a neighboring building. We had every board member-to-be there around that table.

KD: Are you in D.C. at this point? New York?

DK: No, no. It had been decided at the get-go by the foundation organizers that the FASB would be in the general New York area. They decided they didn't want to be too close to Washington. They didn't want to be captured. They also decided that, to make it easier to attract people from different parts of the country, the suburban area would be a better choice than the city itself. So it was decided to headquarter in Stamford, Connecticut. All these things had been done very rapidly in '72 and were in place by the time I even considered joining the FASB. Stamford also had appeal to me. I was at that time living in a neighboring town.

We met in this conference room and we talked about what we should put on our initial agenda. We had seven board members, so we said, "Well, let's figure out seven subjects and we'll ask a board member to head up the project." When we hire staff, we'll get some help for the board members to shepherd these projects.

We had a long list of issues that had been passed onto us. Out of all this we assigned a project to each of the board members. Now we were sort of a mixed bag of people. Marshall Armstrong was the chair and he had spent time on the APB, although technical subjects were his expertise. He had done all the right things climbing the ladder in the American Institute hierarchy and had been the senior partner of a medium sized firm, George S. Olive, in Indianapolis. Having appointed the Wheat study and the Trueblood study, he was designated as the chair, which had great appeal to the American Institute.

The vice chairman also was selected for great appeal to the American Institute - a wonderful, fine gentleman, John Queenan. John was then the retired senior partner of Haskins & Sells, which is now Deloitte through various mergers. He had been on the Committee on Accounting Procedures. He had been on the Accounting Principles Board, but again, selected to have a great appeal to the American Institute of CPAs.

Bob Sprouse, who I mentioned earlier, was an outstanding individual and at that time he was a professor at Stanford. He had taught for a while at Harvard Business School. He had been a co-author on one of those research studies that the APB rejected. Walter Schuetze and I were the youngest members. Walter was a few months older than I was. Walter had come from Peat, Marwick & Mitchell. He had actually worked with the APB member from Peat, Marwick & Mitchell, so he had some insights into the workings of the old regime.

Arthur Litke, who was out of Washington, had a career in the federal government. He might have been with the Federal Power Commission and was familiar with a regulated industry. He had been active in accounting professional activities as well. Then Robert Mays, Bob, either was in the throes of retiring from what is now Exxon, or had been retired a short time. He had moved around with Exxon. He had been in Venezuela. I think his last position with Exxon was as comptroller; a very smart, curmudgeonly guy.

None of us were current technical gurus; maybe Walter Schuetze was the closest. Bob Sprouse was probably the only one of the group that had seriously thought about foundations for and objectives of reporting. We tried to sort out what needed to be done.

So there we were, sitting around the table, trying to decide on our initial agenda. Bob Sprouse said, "Well, some day we're going to have to get around to concepts and principles. What we really should do is make sure we take a couple of projects, which could put some discipline into the balance sheet, into the assets and liabilities of financial statements." I'll come back to this, but there were differing schools of thought about what you were trying to measure in financial statements.

All of us knew that there were questionable things on the asset side of the balance sheet, cost deferrals of different kinds. On the right side of the balance sheet there were things that maybe weren't really liabilities, but were there for future, quote, "contingencies," and various deferrals and accruals in the balance sheets to sometimes smooth out income. We said, "Well, let's take two projects," both of which were recommended to us. One was research and development costs and the other was, quote, "contingencies." And, "Let's put those on the agenda, let's struggle with those issues and maybe that will help us decide on some fundamental concepts."

KD: Early wins, that kind of thing?

DK: Yes, deal with immediate kinds of problems, but try to attack them with a conceptual notion in mind. How were we going to decide going forward when something's admittable as an asset? How were we going to decide when it's time to recognize you have a liability? When is it time to recognize the liability doesn't exist anymore?

So we thought both those projects would be helpful and they really were. They were very, very helpful in forcing us to struggle with what concepts that we, as a Board, had in mind. We knew we were going to be together for quite a few years and we were full-time. We needed to start to think about what kind of discipline is going to be there for our own decision making. Those two projects were very, very helpful.

Bob Sprouse said, "Well, we can't just limit it to research and development. Let's call it research and development and similar costs." Well, after years of struggling with what similar costs were, we erased that from the project. It always was the thought to try to think big. When it came down to trying to resolve the issue, you were often better off being narrow and we discovered that whatever these similar costs were, they didn't seem to be very similar to research and development.

KD: Speaking of thinking big, you didn't wait too long to put the conceptual framework idea up there and start working on it.

DK: You know, we didn't, because initially we avoided it. The Trueblood report was not yet finalized and we knew of the past failures. Also, we got sidetracked a little bit. I urged that we take on a project called qualitative standards for financial reporting, which really was focusing on improving the behavior and attitude of auditors and financial officers. As much as I thought that was an essential ingredient in improved financial reporting for accounting standards setting, it didn't quite fit. That program morphed into the conceptual framework project.

We also had to start hiring staff. We had these seven projects that we were moving ahead with. Then we started to have some board member changes. John Queenan had come on board with a rather short horizon about how long he would stay. He was given the project of materiality, which eventually found its way into the conceptual framework project.

He was replaced by Oscar Gellein. Oscar was a retired partner of Haskins & Sells, a man with an extraordinary kind, jovial personality, which was very helpful in explaining things and trying to persuade people. He had been on the Trueblood study group. He had been on the Accounting Principles Board. He was an absolute great addition to help organize the conceptual framework projects. Bob Sprouse, because of his background, was an incredible, positive contributor in moving that project along.

KD: Was there one person spearheading the project?

DK: Well, I don't recall exactly when Reed K. Storey joined the FASB.

KD: Staff member?

DK: Staff member in a senior position, but not research director. He had vast knowledge of the history of the past attempts. He had been the prime author of APB statement, I think it was number four; which wasn't an opinion or a standard, but it had to do with the objectives and the elements of financial statements—a very helpful piece in educating a novice like me. So he brought that kind of background to the FASB. He was an exceptionally skilled writer and clear thinker. He has written the history of all the endeavors to developing a conceptual framework, which also describes the shortcomings of what had so far been accomplished.

KD: In those early years, early to mid-seventies, what were some of the biggest accomplishments? This is 1988 and the conceptual framework took a long time in between. What were some of high points?

DK: The last conceptual framework document in my FASB time was in late '85. It was an immense struggle to even get as far as we did in the framework. We were also dealing with a lot of other issues. A lot of them were, in a sense, conceptual because people had different attitudes about what the financial statements were trying to do.

Was a financial report just a historical statement of the stewardship of management or was it trying to be useful to outside users of financial statements? Was the role of the accountant in the company and the auditor to normalize accounting income? Was the financial report supposed to be an indicator of earning power or was it to be a measure of the change in your assets and liabilities for the year? There were all kinds of differing attitudes about what financial reporting was to do. Those were recurring themes that we would hear as we tried to deal with various technical issues. But if you were trying to direct me towards –

KD: I want to get a sense of some of the landmarks in the period before you became chairman. What were some of the things that stood out in that period?

DK: I was designated in ‘77 to assume chairmanship January 1st of '78. In that period of time, oil and gas was a big issue, right at the time that I was to assume the chairmanship. Going back chronologically, certainly those two initial statements on the research and development and contingencies were very important and significant in trying to put boundaries on what people called accrual accounting, trying to put some bookends on what was acceptable.

All of these early ones, on leases, foreign currency translation, all of them were significant and sometimes very controversial. In the case of foreign currency, which was number eight, it got totally redone as statement number fifty-two years later. And fifty-two was an interesting one, but that was after my assuming chairmanship.

There was trouble in New York City in the seventies and it put restructuring debt on our agenda. This one just sprung out in part because of the threat of New York City defaults and the fact that the banks held the city's municipal bonds. We faced an age-old question, "What circumstances require you to value or adjust the carrying amount of a loan or a bond that you held?"

We had every CEO of the major banks come to a public hearing in 1976 and that attracted an immense amount of attention and back and forth pressure on this one. That was probably the first hearing that attracted a very vocal group of prominent testifiers. Statement No. 15, the final solution, reinforced a saying at the time, that "a rolling loan gathers no loss."

The answer in No. 15 provided a theoretical basis for not changing the carrying value of a loan or bond as long as the undiscounted and new contractual interest and principal payments were equal to or greater than the carrying value. Two of us dissented to the document, thinking that it was deferring some losses that maybe should be recognized, and in one instance, losses that had been recognized previously.

Secondly, the two of us felt that given the fact that there was a new debtor on these loans – they had become a state agency bond – that was reason to revalue the loans.

KD: Now is that essentially the mark-to-market discussion that we're having now?

DK: Only a small part of it. Statement No. 15 did not address the ongoing valuation of loans or bonds, and when and how to measure an impairment to the value.

KD: Were there discussions? The outright political implications of this are profound in that if you mark the value down, you could create all kinds of catastrophes. Did that enter the discussion?

DK: Oh, I'm sure it did. That was the bankers' fear. There are all kinds of rationales for deciding not to recognize a decrease in the value and second, what is that value? If you think it's ultimately going to recover, why recognize anything? That's a persistent argument. The argument is still going on today.

KD: Did you have a sense of why you came up as being the logical chairman by '78?

DK: By default. It was a very difficult time. John Moss of the House of Representatives and Lee Metcalf of the Senate—sometime, I think it was in '76, the Metcalf's staff put out a huge book called *The Accounting Establishment*, which really was devastating in its analysis and criticism of the accounting profession.

During 1977, we were dealing with the oil and gas issue. Marshall Armstrong was still chair when we put out Statement Nineteen on oil and gas accounting in December 1977. This was an incredibly political issue. I'm not sure anyone would've come and wanted the job from outside. Walter Schuetze had already resigned, in 1976, and was replaced in 1977 by Ralph Walters. I'll never forget a little headline in the FASB's document, Status Report. It said, "Kirk Reappointed; Schuetze Resigns."

After Walter resigned and the Foundation was trying to find some counter news to report. And so, in 1976, they gave me a five-year appointment beginning in '77. Moss and Metcalf were very much on the horizon and we were in the midst of the oil and gas issue. Now take me back to your question.

KD: I wanted to talk a little bit about why you took the position. You set the stage for the fact that there were some good reasons why people wouldn't want to take the position.

DK: Right. Well, to me it was a logical step to take. I enjoyed what I was doing and the chance to be chairman was appealing. I felt the three other continuing board members were supportive. Three new members joined in January 1978.

KD: Was there an agenda going forward? Or were you at this time really occupied with dealing with the fallout that you've described?

DK: I spent a tremendous amount of time in 1977 introducing myself to Washington, D.C. I mean to the Metcalf staff, the Moss staff, and many members of Congress. But it was the

Metcalf staff that was more active in 1977. I'm not sure how long John Moss stayed in Congress and involved. Also because the oil and gas issue was so controversial, there were hearings and all kinds of actions behind closed doors. I had to testify before the Department of Energy and before the SEC. All of this was going on at that time and it was a very controversial period for the FASB.

There was also a structure review of the FASB in '77. It made a number of recommendations, one of which I welcomed. It was changing the voting requirements. We started out with a supermajority requirement and in those early years that bothered me.

KD: Two to five?

DK: Five, yes, five out of seven was needed. The Wheat Committee said, because the APB was two out of three, a two-thirds requirement, and for general acceptance a supermajority would make sense. The APB had allowed qualified assents and if you look back at their statements, maybe they got two-thirds only by having a handful of qualified assents to an opinion. The Wheat study and our initial procedures said, “no more qualified assents.”

KD: So you started with the supermajority?

DK: Started with the five to two majority. The Wheat study had actually said, "Don't publish the dissents. Have them in the file somewhere." That never got off the ground and we started right away with the requirement that dissents be published right with the statement.

I witnessed a case or two where the chairman, Marshall Armstrong, just cast his ballot in a way to get five when he wasn't wholeheartedly supportive of a particular position of four of the other Board members. But he couldn't join the two. It just made no sense to me to put somebody, in particular the chairman, in that kind of position. So I welcomed the structure report which advocated a simple majority —I'm not sure of the sequence, but the Foundation was worried that we were going to get hung up on oil and gas. We were already hung up on another project, prior period adjustments.

KD: Was this the FAF, the Financial Accounting –

DK: – Foundation, yes.

KD: That did the structure report?

DK: Did structure report. Russel Palmer was the chair at the time. A man named Bob Sack did a lot of the work on that report. Bob Sack, at one time, worked for the SEC. He may be still associated with the University of Virginia, I don't know. He may be long retired.

KD: So this wasn't a bad thing, because you were stuck on oil and gas.

DK: It looked like we were going to be four to three on oil and gas. It looked like we were four to three on another. So it was welcomed.

KD: You said there were two things, one of which you didn't mind. What was the other one?

DK: The other, which I thought made good sense, was to open our decision-making meetings. We had started out, in spite of the Wheat study's urging of openness, with the APB's approach of issuing an exposure draft, but having no earlier public disclosure or discussion of leanings or tentative conclusions. You wait until you get your exposure draft out to minimize lobbying. The APB's tentative views were, however, an open secret. As far as I know, the FASB's were not.

We started out with closed meetings for decision making. We had public hearings on a wide range of possible solutions. There were always these arguments: you'll be restrained if you know the public's there or you'll become theatrical. The Metcalf staff and members of Congress were saying, "Look, we operate in sunshine. You should, too." Believe it or not, there wasn't unanimity among the board members about decision-making in the sunshine. I think it was more of a feeling that it would either inhibit or result in showboating. I think that the major points of the report were majority voting and openness. There were, I'm sure, a number of other things, but I think those two were the major ones.

KD: It's easy to see how the majority voting would help. How did the openness, the sunshine approach, help?

DK: I think it added to the confidence in the structure. From my viewpoint, I don't think it changed anything. I don't think there was a downside to it. I welcomed it. Depending on the subjects, we'd have an audience. Some of the firms or some of the publications tended to have somebody there all the time for board meetings. Those were the structured issues.

KD: What was the nut of the oil and gas controversy?

DK: It was, in simplistic terms, a debate between what's called a successful efforts method of accounting and the full-cost method of accounting. Successful efforts tended to look at each well as a separate venture. If you found reserves, fine. It could become an asset. If you didn't, it was a dry hole and would be an expense.

The full cost approach said, we always have losers and have some winners. The dry holes are really part of our exploration endeavor, the search for oil, and they shouldn't be written off as long as we're continuing to explore in a general area. Now there was no generally-accepted definition of an area. Some companies looked upon the United States as an area or North America as an area. Others tended to put smaller boundaries on it.

The accounting firms were divided. The bigger companies generally favored successful efforts. We heard the argument, "Oh, you don't want to harm the smaller companies by requiring them to use successful efforts accounting." It became very, very political.

The leader of the opposition to the FASB was the chairman of International Paper Company. He was General Electric-trained, J. Stanford Smith. IP had acquired a relatively smaller exploration company. He was the organizing force in raising objections to what the board seemed to be headed towards. It was a very, very political. I met many congressmen and senators in the process of trying to explain what the board was up to.

KD: Did they put pressure on you directly, other than just talking?

DK: On this issue, I don't recall any personal appeals, other than countering whatever I would say at public hearings and such, but no other pressure. I don't recall any of the trustees of the Foundation, who occasionally would step over the boundary, doing so on this issue.

KD: The boundary being not being involved in the standard setting?

DK: Right. The president of the Foundation at the time was Alva Way of General Electric. General Electric, beginning with Reginald Jones, had been a supporter of the FASB. I'll come back to Reginald Jones and the Business Roundtable, which was another source of controversy. I remember Alva Way testified in support of the Board's independence at a SEC hearing. I do not recall any personal arm twisting or phone calls on this particular issue. It was all in public forums or out of the FASB eyesight in the corridors of Washington. Ultimately, the SEC was required by legislation to look at the issue "de novo."

KD: Which took it off your table.

DK: But we got our statement out at the end of 1977. We knew we had to get it out. We weren't quite sure what was going to happen politically, but we wanted to at least be on the record as to what we thought. It got out four to three, but it did get out. The SEC permitted both methods to continue while a discovery value method was being developed. That never happened and both methods continue in use, as far as I know.

KD: You had mentioned the Business Roundtable and the next thing on my agenda was corporate pushback against some of the standard setting initiatives.

DK: I mentioned that Roger Smith was on the Wheat study. Early on, when the FASB was formed, Tom Murphy, I believe, started an accounting principles committee of the Business Roundtable. Of course, he was the first chairman of that. I remember on that committee were Cliff Garvin, of what is now Exxon, Reg Jones of General Electric. I remember them because those two were sympathetic voices in support of what the FASB was trying to do.

Tom Murphy was gentlemanly. He had a very strong view in favor of historical cost, matching and stewardship, a very inbred philosophy at GM. Anything that smacked of changing matching and historical cost was anathema to him and General Motors.

KD: Changing away from historical?

DK: Yes, yes. The board, however, was emphasizing assets and liabilities and not matching revenue and expenses. What's going on? He was always gentlemanly about it.

Gary Previts compiled correspondence between him and FASB members. It went on for years. He'd write these letters and we'd write back. When Roger Smith came on the scene to chair that committee, the tone changed. I remember Roger Smith saying, "You know, when we did this Wheat study, I ordered chicken salad. And you know what I got? Chicken shit. That's what I got from the FASB." That was him. I mean, that was Roger Smith in a nutshell.

So he would turn up the heat. General Motors was undoubtedly frightened about what might come out of pension accounting and health care cost accounting. I think they knew they had a ticking time bomb.

KD: Huge legacy costs.

DK: Huge. But they had a rationale for these costs. I mean, these costs didn't attach to people. They were just costs out there that you needed to spread out over an unmeasurable horizon of time. So we got a fair amount of heat from the Roundtable, but particularly when Roger Smith became its chair. I became so exasperated in trying to deal with him and those views that I said to the trustees one time, I said, "You ought to go meet with these guys and listen to their kind of malarkey." That was a big mistake. (Laughter) That was a big mistake.

It was later in my time and the then-chairman of our foundation was a former Institute chairman. Not a hired person, but a professional representative and he thought of himself as a great accommodator. Instead of sort of seeing through all the smoke from Roger Smith and the group, he all the sudden became concerned that something's really got to be wrong here at the FASB. That really got to me in the later years of my tenure.

So the Business Roundtable would flare up at times. John Reed, who came on that committee from Citicorp, also was a thorn in our side. He advocated at times that we should just go out of business, because the business community knew better how to deal with government agencies than with us.

KD: Let's touch on that. The one thing we haven't talked about is your relationship with the SEC. Sandy Burton's doing a lot of things in this period.

DK: Yes, of course.

KD: And people are saying, "Well, why don't we just give this to the SEC as well?" Tell me a little bit about the back story on that.

DK: Well, when the FASB officially started in 1973, Ray Garrett was chair. Sandy was chief accountant. However, sometime in 1972, Marshall Armstrong asked me to go down to the SEC with him. We met with Bill Casey. It might have been sort of transition time. I think Brad Cook was chair for a short period thereafter.

I remember after we met with Bill Casey, Marshall and I both looked at each other and then said, "Did you understand what he was saying?" Neither of us did. But by the time we were officially in business, Sandy was the chief accountant and Ray Garrett was the chairman. I think Al Sommer was also on the commission at that time.

There was an issue about what the relationship between the board and the SEC would be. Sandy believed that we should pre-clear everything with him and his office. We said, "No, we can't do that. We're set up to be independent. If it looks like we're subordinate to, or starting out definitionally being first accountable to the SEC we would never make it. We would never have a chance. It can't be done."

Then he said, "Well, maybe you could take care of accounting, we'll take care of disclosure." We said, "Well, they're really kind of inseparable. So much of financial reporting and financial statements involves a lot of disclosures. If you think there's something in addition to what we might come up with that's obviously within your powers. You have the reserved powers. If you don't like what we've done you can upset it, reject it, whatever you want to do. But we really needed to operate independently."

We had an early roundtable with Ray Garrett, Sandy, and some other Commissioners. Ray Garrett saw what our dilemma was and we came away from that session with kind of an understanding. I think we used the phrase mutual non-surprise. We would do what we could to alert the SEC in a way, because again, we didn't have open decision meetings. "We'll find a way and we hope you will reciprocate. And so we'll go on this informal basis of mutual non-surprise."

The SEC did, I think it was in accounting series release number 150, something like that, to acknowledge that FASB was now the standard setting entity that it would look to.

KD: So that was the result of those discussions?

DK: Yes. My time sequences may not be quite right.

KD: How did that accord work?

DK: It worked fine, until oil and gas, but that was a special situation. Sandy had strong views on a number of issues which, of course, we listened to. But Ray Garrett saved the day at the beginning of the relationship. That was the way it started.

Sandy was there, I think, until about '76, something like that and we heard a fair amount from him. When we started to deal with the issue of inflation, Sandy had some strong views on that. He was followed by Clarence Sampson. Clarence was the chief accountant through the rest of the time period I was at the FASB.

Clarence, as I think maybe was Sandy, had always been a member of the advisory council to the board. Clarence was always very open with us and, to the extent that we could be, we were open, or at least as much as our rules said we could, with Clarence. I'm not aware of any conflicts or run-ins. I think it was a relationship of mutual respect.

KD: One more topic for this FASB period is the emergence or the creation of the Emerging Issues Task Force. Tell me about where that came from.

DK: I'd have to think back as to where the trigger was or do you have an indication of what year?

KD: Sometime in the early eighties, I believe.

DK: I don't know where the issue may have come from, but there was a recurring question of whether we were dealing with enough issues.

KD: You probably felt like you were.

DK: I thought we were dealing with enough issues and probably also thought that auditors could resolve some of the unanswered issues on their own. As a practical matter, it was concluded that they really couldn't without some kind of umbrella protection from the FASB. I don't recall if there was a particular triggering event.

KD: No, that's okay. I just wanted to get a sense of what the concerns were during that period and whether you felt like the creation of that body addressed the concerns.

DK: It was thought to address the concerns. It provided a forum. We worked out the process for how it would communicate what it had dealt with. Then the authority of the group was debated over a period of time and I think got resolved after I had gone.

KD: Anything else we should talk about during the FASB years that we've missed?

DK: Pension accounting for the plan and for the sponsor was a time consuming and controversial project. Also we did develop a number of statements under this conceptual framework umbrella. The first statement on objectives ran into some opposition because of its primary focus on decision usefulness rather than on stewardship. Statement number two, dealing with what makes accounting information useful, i.e. the qualitative characteristics of useful information, was a very well written piece in large part by David Solomons, a first class piece of work and very helpful.

The third, later incorporated in Concept No. 6, deal with elements of financial statements – how do you define, what are the characteristics of assets, liabilities, revenue and expenses? A concept statement on recognition and measurement – to some people, the one that was going to be "the be all and end all," that would settle forever whether historical cost or current value would be the primary measure. Individuals have strong views one way or the other. The statement (No. 5), I always thought, went about as far as it could. That was not very satisfactory to many people. It more or less said that if there's some measurement basis that is more relevant and representationally faithful of what the financial statements purport to represent, then it should be used rather than the existing measurement basis, usually historical cost.

There was no way that we could get all of the board members, including myself, to just accept a single value measure as an overall measurement solution, even as a concept. Some wanted to focus on, "What does the current value mean for this situation? What will it mean for that situation? How are you going to value that? How are you going to value this?" We were trying to have unanimity on the concept statements. However, we had three very recalcitrant members who were hesitant about saying anything favorable about fair valuing, that would suggest changes to existing reporting practices.

After a great deal of time and effort, we ended up with our only dissent in that statement, a dissent by John March, which was a full blast endorsement of existing practices, meaning in large part historical cost and matching. The debate goes on.

KD: The decision to step down from the FASB—had you just felt like it had run its course?

DK: No, I had run out of time. When I was initially appointed, I had less than a five year term. The initial terms were staggered. Originally, shortened terms didn't count against a two five-term limit. So it technically made me eligible for two additional terms of five years each. I was reappointed in 1976 for a five-year term beginning in 1977.

During the second term, I debated whether, if asked, I would stay for a third term or go. I was asked and chose to stay for the third term. At the end of 1986, my time ran out.

KD: So you did some teaching and things like that?

DK: Right, yes. So I stepped away from the FASB because my time was up. Sandy Burton asked if I'd like to join the faculty at Columbia Business School. He was dean at the school. People said, "You're going to go to work for Sandy?" I said, "No." I meant, a college professor doesn't work for anybody other than themselves. So I joined the faculty. The school were very accommodating to me, more so than I probably deserved.

I had never done any teaching. I don't have a Ph.D. I learned an awful lot teaching and had mixed success as a teacher. So I had a nice relationship at Columbia, and had the opportunity to serve on corporate boards.

KD: How did you get the opportunity to work on this landmark study for the Public Oversight Board?

DK: I'm not sure I'd necessarily call it landmark. Maybe it was referred that way somewhere. Walter Schuetze was chief accountant at the SEC. He had given a couple of speeches accusing the auditors of being cheerleaders or advocates for their clients, rather than independent, objective viewers, a valid concern on his part. There is the temptation of a partner on some assignments to want to get the answer that the client wants. I think the profession may have said, "Look, he's harping on us for this kind of stuff. Public Oversight Board, can you do something and look into this issue?"

So that's what triggered the POB to say, "Let's do some kind of look at the independence of the auditor." How they settled on me to be chairman, I have no idea. I think they had already settled on George Anderson, who was a small practitioner in Montana, who had been a chairman of the American Institute of CPAs. We mutually, somehow with Al Sommer, settled on Ralph Saul as the third member. I had known Ralph when we overlapped as trustees of the Fidelity Group of Mutual Funds and had admired his independent thinking.

The three of us were asked by the POB to look into the issues on auditor independence. We were clear up front that we weren't going to just rehash these four cases cited by Walter that the SEC had already resolved in some way. We were assured that the study should be broad-based.

KD: Look at it systematically, I guess.

DK: Yes, try to see if there was anything systemically that could be done or might be done. In September 1994, the POB issued the Panel's report "Enhancing the Professionalism of the Independent Auditor." I remember going down to explain it to Arthur Levitt, who was chair, and Walter Schuetze. We were sitting at a table and I was trying to describe the report, what we did, what we were concluding. I could almost see the steam come out of Walter's ears, who's been upset ever since, I think, because it didn't redo or rehash the four cases as such, or possibly because it didn't conclude the auditing profession is a cheerleader for its clients.

KD: What did it conclude?

DK: It really focused on audit committees and the fact that we had to find a way to get them more involved in the judgments about financial reporting. The auditor had to build that relationship and it had to assume responsibility to make judgments about the financial reporting, not just about its compliance with the rules, but really the quality of the reporting: Was it bordering on being too aggressive? Bordering on being too conservative? It really had to be forthright in those communications.

Now this frightened some of the auditors, who said, "Oh, somehow we're supposed to express a preference for an accounting method?" So it took a while, but the auditing profession built it into their requirements of what an auditor needs to report to audit committees. The Panel report was valuable input to the Blue Ribbon Committee that followed on dealing with audit committee responsibilities. Arthur Levitt had pushed the

New York Stock Exchange and NASDAQ to find a way to build audit committee best practices into their listing requirements. The Blue Ribbon Committee's report was the impetus to do just that.

KD: It's interesting; you had a seven year period away from the profession or direct involvement that in retrospect was a pretty important period. Did you see the profession change significantly from the eighties to the nineties, as far as things like professional involvement and academics, writing and of course, the related services that were coming?

DK: I was an observer, but not directly involved. A lot of people even said that once the FASB came into play and the leadership of the accounting firms lost their role in standards setting, accounting decisions and therefore, their leadership didn't need to be so knowledgeable. There seemed to be a trend towards those who were more client-oriented and business getting-oriented. It also was a time when the other services of the firms were emphasized. So there clearly were those changes taking place. Certainly it was happening in that period of time.

KD: Was the POB addressing this directly?

DK: The POB got organized the same time as we, at the FASB, were going through structural changes, oil and gas, Moss and Metcalf, etc. The Institute reorganized itself and tried to improve its peer review process, its investigative process, and formed the SEC Practice Section. This brought together all those auditors who audited SEC registrants and the public companies, and established a framework for doing peer reviews and inquiries into alleged audit failures. The POB was built into that self-regulation structure. I think all this was in large part the AICPA's response to the Metcalf tome, *The Accounting Establishment*.

KD: So things had changed by the time you came on the POB, was it '94?

DK: Ninety-five.

KD: Ninety-five. Well, maybe it's moved a level up.

DK: When I went on board, I was the first new member in almost ten years. There were no term limits and I was replacing Bob Mautz, a man who wore many hats. He was a CPA, and had been a respected professor. He was a retired Ernst & Young partner. He was a public voice describing what the POB activities were, what peer review was all about.

The chairman who was the second chairman of the POB, was Al Sommer, a man for whom I had immense respect, a thoughtful, wonderful, person. He was chair a long time. So this group was long in place. Al Sommer, Mel Laird, Bob Froehlke, Bob Mautz, who was stepping down and Paul McCracken, recognized economist, professor at the University of Michigan. That was the group I was joining.

The board had done a number of things in those years. Their activities accelerated later and often with push and shove pressure from the SEC and push and shove pressure from the American Institute. They had been diligent overseers of the activities of the SEC Practice Section, had a very small but very professional staff. Jerry Sullivan was head of the staff when I joined and he was until the day POB closed up, a very competent professional.

So the POB had, beginning in its very earliest days, expressed views about other services by auditors. In fact, one of the first things they did, probably in '78, was to tell the SEC Practice Section that, “No, you don't need to put limits on what other services the auditors provide.” The SEC Practice Section was going to limit those practices to those that required accounting and auditing expertise.

The Public Oversight Board said, in my words, "No, you don't want to do that. You want to keep your eye on what goes on. If they really become aggressive sales people of unrelated services, then maybe you should stomp on it. But you don't want to initially limit it. So keep your eye on it. And oh yes, there's disclosure now required of management service revenue and that will be a restraint as well." Later members of the POB probably wished that that had not been the POB’s first action.

KD: Was that apparent by '95?

DK: It actually had become apparent earlier. I don't recall what triggered it, but in 1986 the POB had a survey done of attitudes about other services provided by the auditing firm.

They found there was really divided opinion about it, that a lot of people thought it was a bad idea, but others said it was okay. About the same time the requirement to disclose the revenue from those other services, as a result of a lot of pressure on the Institute, got dropped. The behavior of the firms was troublesome and the lack of disclosure about the fees was also kind of troublesome.

Then in 1993, the POB did a very expansive report. When the Institute asked the POB if they would jump in and help fight for tort reform, to find a way to minimize the auditors' responsibilities or limit their amount that they could be sued for, the oversight board said, "Well, first though we want to undertake a good study of a lot of other issues."

In '93 they issued the special report to the Practice Section, a very comprehensive review of the activities of the Practice Section with a lot of suggestions on what should be done to improve it and modify it. They even considered other forms of regulation. They considered whether an NASD type of organization should be put in place, and concluded that it should stay inside the AICPA. When I came on in ’95, they were regularly following up on the many, many recommendations that were in that 1993 report. It was a very thoughtful, comprehensive report. However, it did not address the scope of services offered by the auditors.

KD: What were some of the big initiatives that took place in the late nineties or things that were commanding most of your time?

DK: At the POB?

KD: Yes.

DK: It was certainly the ongoing process of overseeing the peer review activities and investigations of alleged audit failures. There also was this question again about scope of services that was raising its ugly head and obviously issues about independence of the auditing firms.

I was chairman of the audit committee of the Fidelity Group of Mutual Funds, and at some time, I became aware that Price Waterhouse personnel had violated some of the independence rules, primarily the prohibition of employees owning stock in a client company. Fidelity was the provider for many companies' 401(k) programs, so it was pretty easy for a PW person or spouse, if they were not absolutely careful about this, to end up owning a share in a Fidelity mutual fund company. It was also clear that PW's independence monitoring system was woefully inadequate.

As I recall, the SEC independence investigation commenced after an anonymous phone caller alleged that a Coopers & Lybrand partner owned stock in a company the firm audited. It proved to be a very flagrant violation of the rules. About the same time, Coopers had combined or was combining with Price Waterhouse, so the SEC investigation went further.

The POB ended up spending an awful lot of time on the issue of auditor independence with little to show for it. I was particularly sensitive to the issue, knowing there were a tremendous number of technical violations at the Fidelity funds. There were hundreds of open-end Fidelity funds buying and selling shares in funds every day. The question was, "Well, if the auditor wasn't independent, so what happens to the effectiveness of the funds' registration?"

There wasn't any clear-cut process for dealing with this on the SEC's part. With the help of Dick Phillips, lawyer for the Fidelity mutual funds and a former SEC lawyer, and Ernie Ten Eyck, who had been an SEC employee as well, we worked out with the SEC's approval a way of reviewing all these audits that didn't jeopardize the registration of the funds. I was supersensitive to this issue and the risks to registrants caused by violations by the auditor, not the registrant.

Then we started on a process, at the SEC's request, of trying to do some reviews of the other firm's quality control systems related to independence rules. This deteriorated into a long struggle. It's well documented in the POB's final annual report.

Then, of course, Enron imploded. That was in '01 and there was a peer review going on of Arthur Andersen at the time. That also set off a flurry of POB activity. The final years of the POB, starting in the late nineties, were hectic, and at times, chaotic, because of the issue of the scope of service of the firms, the violations of the independence rules, the struggle to define what kind of reviews might be done, and the lack of assistance from the firms.

KD: Was part of this because the POB didn't have a great deal of authority?

DK: It had absolutely no authority. It could only try to persuade and suggest. It had no executive powers. I think we got a new charter in –

KD: 2001.

DK: Yes, sometime in '01, which said we could do investigations of any kind. We still didn't have a hammer. Up to that time, it was solely persuasion and public reporting. That was the only power that the board had. When Lynn Turner asked that we do these studies, I said, "You know, you've got the clout. We don't have the clout." It took two years of negotiation between the SEC and the firms to define what studies might be done. Even after that was hammered out between those parties, trying to get those firms to give us information was nearly impossible. It was just chaotic.

KD: So now you stepped down before the board officially dissolved itself, is that correct?

DK: I resigned, I think, within a day or so of when Harvey Pitt announced what sort of structure he was proposing. There had been no discussion with, and there was no role for, the POB. It was in mid-January of '02. There had been a great deal of tension between the POB, Chuck Bowsher, and Harvey Pitt, who had come in as chairman. Pitt had had a history of being on the Institute's side on some of the independence issues and that didn't help. The Institute clearly was comforted by his becoming chairman and had been consulted in the design of Pitt's proposal. I just felt that it just was becoming a matter of "Who shot John?" and personality and political clashes. I was innocent enough to think that I could just deal with the professional matters and do what I could to help improve the performance of the profession. However, that role was no longer possible.

I said, "Enough's enough," and so I stepped down. The others stayed on to finish up their final report and make a proposal of what kind of structure they thought should be put in place. I was asked to oversee and report on the POB staff's windup of one of the issues that was left open, i.e. the review of the quality control systems the firms had surrounding the independence issues.

I started on that activity in March '02 and it went through most of the year. The professional staff of the old POB adopted another name, the Transition Oversight Staff, and continued all the oversight activities of the old POB until the formation of the PCAOB.

That's the wild and wooly of the POB times.

KD: Terrific. Is there anything that we haven't covered there that we should?

DK: I'm not sure that we should, but there's many things that we haven't covered, including the activities and report of the Panel on Audit Effectiveness in 1999 and 2000.

KD: Any highlights of your career in the accounting standards world?

DK: Just a few observations. The issues don't change a great deal. As you talk to people who are active in standard setting, you'll hear the same sort of themes, even structural ones, e.g., the size of the board. Hopefully there is no going to go back to a supermajority vote, but you never know. The controversies about the concepts, which should underlie the financial statements, continue to be thrashed out. Also, once you solve a problem you discover that it doesn't stay solved forever. So there's an awful lot of recycling.

I had even said to myself, "You know, once we reexamine something we've done, I know it's time to go." All the sudden we reconsidered foreign currency translation and I wasn't ready to go. (Laughter.) So you never know. The issue of not only how you measure things, but where you report it, when you finally get around to valuing something, continue. The argument goes, “What is it? Is this a gain or a loss? Where do you put it?” Only in the footnotes? Stick it down in the shareholder's equity? If you have to put it in the income statement, put it down at the very bottom and not talk about it? Same arguments, they just keep coming back.

An interesting question is whether you can have truly international standards and whether there's even a potential enforcement mechanism to achieve that. Without some form of oversight and enforcement, the notion that you can have just broad principles and standards that will take care of everything is just not workable, just isn't destined to succeed. Good luck in those endeavors, but I don't see a way that it can work out. I'm not sure I can see the SEC passing the buck, in some way, to some other super body or depending on the best intentions of the auditing profession.

KD: And if they do, it will get revisited down the road somewhere.

DK: Absolutely, yes.

KD: Well, thanks very much.

DK: Ken, glad to be part of it.

[End of Interview]