

**Interview by Stephen A. Zeff with Carman G. Blough
January 16-17, 1967 at the University of California, Berkeley**

CB: Yes, I worked, I think Bill Werntz and Earle King worked most closely with me than any of the other three. I recommended Bill for the job and I think Bill was wholly sympathetic with my philosophy in general. Now the only departure that, I think, there appeared once to be a departure in his philosophy and that was I forgotten exactly when but sometime along in the late 40s if I remember rightly. Whether Bill was instrumental in this or whether somebody else was instrumental and Bill just went along or had to go along, I'm not sure. But anyway the Commission issued a tentative rule, a release which they proposed, that they thought they would issue, that they were thinking about issuing. They published it in the federal register and that gave a month for people to raise any objections and we raised serious objections. The proposal was to incorporate a rule to the effect that all items of income and expense, profit or loss given effect in the accounts during a year shall be included in the determination of net income.

SZ: That was 1949 and that was Mr. King

CB: Oh it was King?

SZ: Yes

CB: King did that?

SZ: Yes, He was chief accountant.

CB: I guess you're right. If that was as late as 49, then Earle King was the chief accountant and Bill had been out a year or two. So I think it was no point in which he, where he changed any of the philosophy or changed from the philosophy which I had. Now Earle was a little less sure of himself. He had a very sweet disposition, but he's a little man physically. And as so many physically small men are, he put on a very belligerent attitude in order to keep anybody from thinking he was a pushover because he was little. So a lot of people never saw his tender side but they always thought of him as trying to be tough and hard core. He wasn't. But whether it was lack of assurance or whether he just hated having to make decisions, he was involved in having items excludable from that income under certain circumstances. They're always having to challenge them, they're always challengeable. And I'm glad to hear that the Accounting principles supporters decided to go over to the all inclusive income statement proposition. In a way, I'm not an "all inclusiver"; I think the usefulness in many respects would be improved if accountants and corporations would properly classify items and make the proper differentiation between items that should and should not pass for income. But since they don't, it resolved the problem items. And Earle always hated to make that decision, and said that if they only added a rule that everything had to go through income and eliminate a large portion of the argument.

SZ: But at the same time wasn't the Commission attempting to, by this code rule, incorporate in regulation SX, a number of the substantive sections of accounting series releases as kind of a qualification for the Commission's policy on accounting practices which also the institute objected. Do you recall that?

CB: No, I don't recall that phase of it. I won't say I wasn't there, but it certainly didn't raise much of a furor.

SZ: In a recent article, that appeared in this volume called Uniformity in Financial Accounting issued by Duke University, a man who is now employed by the Commission speaking for himself of course argues that around the end of 1945, the Commission seemed through its accounting series releases take less of what he calls a tutorial approach for working with the accounting profession and began not to assert itself quite so strongly in areas where the profession appeared to be divided. Would you say that this is probably a plausible interpretation placed on the trend?

CB: I think maybe it would be, yes. I don't think I would have been able to identify the time, but I think there has been a movement in that direction. More and more, the Commission has tended to not take too positive a position in some of these controversial areas. Until the recent labor oil trial. Somebody told me that they thought I misspoke when I said that the Commission hadn't issued any accounting principles, any statements of accounting principles other than those that I talked about in the paper. And they pointed to this recent release where they require that the deferred taxes for installment sales should appear among the current liabilities. I haven't talked to Andy about it or anybody about it, but in my opinion that is clearly covered in the bulletin on working capital. The liability follows the asset if it falls within the cycle. The liability and the assets both go in there.

SZ: Is it your recollection that it was almost a universal case that the Commission would not issue an accounting series release without first having had a hearing? Or was this not that common?

CB: No

SZ: It would sometimes issue accounting series release, perhaps I don't understand your no.

CB: It did not hold any hearings for accounting series releases unless it related to a particular case where they were proposing to issue a rule or regulation as in the case of [ASR 53] or an opinion would affect a particular company and then the company had a right to appear but nobody else. Virginia Power and Light Company was the only one who had a right to argue to the Commission there. No accountant was given any opportunity except their own certifying accountant. Where they propose to issue a rule, as in the case of the all inclusive income statement, there, under their rules they agree to hold a hearing, if and when a hearing seems called for. And a hearing, not a regular scheduled hearing was called for, but as I remember representatives from American

accounting association, American comptrollers institute, American petroleum institute, I forgotten who all or just when it was but I remember this group, two representatives from each got together in a room in Washington and presented their views with respect to the matter and as a result the statement was withdrawn and I should say the proposed rule was never issued. Most of the releases in the accounting series release were never exposed to the public or any hearing scheduled for them. If they were opinions of the chief accountant they were just issued as his opinions after approval by the Commission. And if they were released as having to do with particular companies as in the case with Release #53, the Virginia Electric and Power Company, that was the outgrowth of a hearing on a registration statement in which they heard from the company but as far as I know nobody other than representatives from the company ever appeared on it. Now I think you have a situation when Release I believe it was 96, I'm not sure but it's the one that has to do with the deferred tax item. As I remember there was a tentative release put out, or maybe there was a release and then later on there was another release that followed up on it, I believe that was the way it was. I think the first release took a very positive position, and then later on after some correspondence I had with Andy, there was some kind of an amendment to it, I'm a little hazy about just what happened in there, but I don't think there was any public hearing on the matter.

SZ: Do you remember how, what might have given rise to the term generally accepted auditing standards in the scope paragraph of the certificate because this was not included in the Bulletin Extensions of Accounting Procedures?

CB: If I remember rightly, that came out of some discussions between the chairman of the Committee on Auditing Procedure and the then chief accountant of the SEC. I forgotten who was who at that particular time but I think Werntz was still chief accountant of the Commission but I'm not sure who was chairman of the auditing committee. But anyway, the Commission, the staff of the Commission anyway, and I guess the Commissioners themselves, felt that the auditor, maybe this was a legalistic position adopted by the Commissioners themselves, but anyway there was a feeling that an accountant ought to go on record in some way as to the comprehensiveness of his examination, he should make some kind of statement as to what kind of examination he had made in reaching his opinion. Instead of taking the line that some bankers take that they would like to have the accountant to outline all the procedures that they followed in making their examination, the SEC said that we don't want that, we don't think that that's what we want. We just want the accountant make a statement that the statements are prepared on the same basis that the other firms in the profession would consider proper. And in searching around for the words the term generally accepted auditing standards came up. And it was in a sense a transference of the general idea of general accepted accounting principles over to the auditing idea, however it is generally accepted auditing practices, standards. That's what we want, we want the auditor to assert that he in this case it isn't generally accepted accounting principles that he's followed, but he has followed generally accepted auditing standards. And they decided that was the thing to do, so they insisted that that sort of a statement should be made, some sort of a representation of that kind be made and so we had a statement of generally accepted auditing standards in our certificate, our proposed certificate was adopted. Before there

was never any statement of what generally accepted auditing standards were and it was just to satisfy, as I remember, it was to satisfy the SEC's insistence that the auditor go on record that he was doing the kind of a job that was generally recognized as the kind of job that should be done in the profession. Then the members of the profession said well we're signing this certificate all the time and what do we mean by it. So the auditing committee decided that they better undertake a statement of what are generally accepted auditing standards. Do we mean procedures? Do we mean counting cash? What do we mean when we're talking about auditing standards? Nobody knew. And they certainly didn't want to outline all of the auditing procedures that might be necessary under particular situations because in many situations there aren't auditing procedures that are applicable. So a subcommittee was appointed and Ed Kracke of Haskins & Sells was the chairman of that committee and I would say that statement on generally accepted auditing standards was at least 75% if not 95% Ed Kracke. He put in a tremendous amount of time in on it and then he got his subcommittee together and they talked about it and worked it over and finally he got it in shape for the subcommittee to present to the top committee and there was very little argument about it. It was such a good job and people liked it and the committee liked it and there was very little controversy over adopting the tentative statement of generally accepted auditing standards which was really putting the cart before the horse. The term was adopted and used before anyone got around to saying what the term meant.

SZ: I think in 1953 it was then revised, the little statement, the little bulletin was revised. Do you remember who was in charge of that?

CB: In the meantime, the summary had been adopted by the membership as the statement on auditing standards, and so when the revision, it didn't change very much, what they did changed didn't amount to much, but they changed a little bit and then they announced it as the statement of generally accepted auditing standards rather than the tentative statement of generally accepted auditing standards. Now who was chairman at that time, I wouldn't know without going back to look at the documents itself and looking at the years that were involved.

SZ: What do you remember about the controversy at the end of the 1940s when US Steel Corporation attempted to use for depreciation, I think replacement costs, or some measure of replacement costs and this precipitated a letter, I think, from the Committee on Accounting Procedure plus a bulletin, number 33, I think it was, and a fair amount of controversy at that time?

CB: Well, when United States Steel issued their second quarterly report, which came out in the latter part of July; this was 47, wasn't it? It came out in July. They indicated that they had deducted depreciation of, I've forgotten, 46 million dollars I believe it was, a substantial amount of depreciation, over and above the amount that was determinable on the basis of their normal depreciation policy based on costs. And that this they intended to adopt this policy through the rest of the year and it was a recognition of a part of the increase in reproduction costs or replacement costs over their historical costs _____ . And I forgotten how it was worded, but it indicated it was not

based on a whole of that, but that they had taken about a third of what they would have taken if they had recognized the whole reproduction. Well, this caused immediate reaction in the auditing committee, the accounting procedures committee, rather. And the committee decided they had to do something about this because this wasn't right. And so they set the work discussing it and caused quite a furor. I don't think there was any letter, I'm not sure, but I don't think so. There might have been, but I don't know what it would have been. The letter you may have been thinking of which took place a year later, they issued a letter to the membership telling the membership that they hadn't changed their mind since bulletin 33 was issued. I think that was issued in 48. Well actually that letter was written during the annual meeting of 1948 when their had been agitation to reverse the position they had taken in 33.

SZ: I notice that Mr. Paton who was a member all throughout the 40s, along with Mr. Powell, they didn't vote on this particular matter, although I think I know how he would have voted if he did vote. Do you know if there was any significance in that? It's 20 members for and none against and Mr. Paton didn't vote. And it's number 33.

CB: It was drafted and issued at the Chicago meeting of the institute. I think while the meeting was in progress, Bill might not have been there and all the other members were. I don't know, I just don't know what the answer to that is.

SZ: What were the circumstances leading up to the letter in October 1948?

CB: Well, Bulletin 33, of course, going back to the origin of it. It was the United States Steel's release of its July second quarter earnings that brought the thing to a head, though it wasn't issued right away. And then Du Pont's wrote off indicated that they were writing off excessive costs due to the fact that construction costs were high after the war and they thought that they weren't normal and therefore they should be written off and not treated as part of the costs of the building and depreciated. The committee didn't like that so they decided that wasn't a good idea. Chrysler was building plants which it didn't expect to have any usefulness after the first flush of post war automobile production was over and they were proposing to accelerate depreciation over a portion of the assets that they thought they would be ready to discard after the post war demand was over. George Bailey was on the committee, not sure who was chairman, and he was very strongly of the opinion that there should be some recognition given to any way of getting rid of that kind of cost and so this all boiled up and was put out in a bulletin. Then Price Waterhouse, as a result of that, although this is an interesting sideline: George O. May had been a consultant to New York Steel, I mean US Steel, and had in effect written the release as to what they were going to do, and I think probably did write the footnote as to what they did do. But then the firm, see he was no longer part of the firm, the firm took exception to the method after the bulletin was issued. Well then, the SEC said we won't accept it, and they had to revise it. And this brought along a lot of furor. George O. May was upset, and he made quite a talk down on the floor of the convention in Chicago. Bill Blackie, who was of Caterpillar Tractor, he got up and made an impassioned speech with respect to the attitude of the American Institute's Committee on Accounting Procedure that we were sticking our necks in the sand, that we were ignoring, that we were holding

up progress and all that sort of stuff and that something should be done about it and so forth. And this kind of stirred of the members of the committee who were there, and they got together and wrote that letter. And decided that we reconsidered it, we've thought about it, we've been thinking about it all year, and we might have issued the bulletin hurriedly, but we've had a lot of time to think about it since, and we were of the same opinion. And so they wrote that letter at that time. Now, Mr. May didn't make his speech on the floor of the convention, but he was chairman of some meeting, some of the smaller meetings that takes place around the big meeting. And in there is when he took his chance to make his attack on the committee for the issuance of that bulletin.

SZ: Now it was very shortly after that, I think, that the institute obtained a grant, I think, from Rockefeller Foundation for the purposes of launching a study group on business income. Now was this a causal result of the defeat of this proposal?

CB: It probably was, because Mr. May worked on the Rockefeller Foundation and got the appropriation. He got them to make the grant and he undertook to be the research director, I believe he was, for that income study group and masterminded it. Now I have always felt that there was a misrepresentation in the acceptance of that grant or at least in the carrying out of the use of what the grant was made for. At the time that grant was made, my understanding was that a number of accounting terms were going to be considered with the idea of trying to get a uniformity of interpretation of definition of terms that are now used differently, in different lines of activity. And it was for that reason that lawyers and bankers and all these other people were put on. When they got into it then, May as the director of research on the thing, he hired another chap who worked with him for a while, unsatisfactorily to Mr. May's desire. He started out on the approach that it was intended to be a study of a variety of controversial terms that would be unified by this and we would get the lawyers to accept it, the accountants to accept it, and the economists, a bunch of economists [were] on [it] too, and everybody using these terms would use them the same way. But it boiled down to nothing except the determination of income. This is what finally came out of it. Now whether Mr. May had that in the back of his mind when he went after this grant or whether, once having the grant and the issue gone the way it did for him, he injected this income situation problem into the activities of the group, I just don't know. But anyway, I know he was responsible for getting the appropriation. He was also responsible for the way in which the study ultimately took.

SZ: But it is clear that it was a result of action begun and carried on by Mr. May, rather than by the institute that this whole thing was begun?

CB: Right.

SZ: And the institute really wasn't seeking this kind of a study?

CB: Right.

SZ: I get a strong answer there.

CB: But the institute did match the appropriation once it was granted. They matched the appropriation.

SZ: Is it a fair statement to say that after the publication of the report changing concepts of business income, which never was really accepted by the Committee on Accounting Procedure, that Mr. May seemed to move away from the institute, began to be somewhat more remote and just kind of worked on his own rather than working with the profession, granted he was on up in age and was no longer a member of one of the firms?

CB: Well there were several things that were involved there. In the first place, Mr. May could never forget that he was Mr. May. And he had a lot to do with the organizing of the Committee on Accounting Procedure. After he was off the committee, and indeed after he was out of his firm, he still tried to exert some substantial influence on it. One of the first things that came up that caused Mr. May to cool off towards the accounting procedure committee had to do with a statement which was issued by the committee on public utility accounting, having to do with the Federal Power Commission's decision in the Montana Power case and Mr. May wanted the Committee on Accounting Procedure—no, Mr. May was responsible for the Committee on Accounting Procedure issuing a letter to members in a green sheet, in which they dealt with three or four propositions in the Power Commission's decision. At one point, Mr. May, who was not on the committee, appeared before the committee, asked to appear before the committee, he came in the meeting, I remember we had the meeting in the Waldorf-Astoria hotel, and he came in before the committee with a report, taking serious objection, serious issue with the Federal Power Commission on certain matters and making some very strong assertions. Anyway, he wanted the committee to adopt it right away. Is George Bailey the chairman there?

SZ: It's written by Mr. Staub as chairman.

CB: That isn't the one then, I don't think.

SZ: Mr. Bailey was a member though.

CB: It was before Bailey had taken over? The thing I'm talking about was after Bailey was chairman. And so it wasn't that release there. Well anyway, Mr. May had this report written up which he wanted the committee to adopt and send to the membership or the Power Commission or somebody. I don't remember who. And somebody in the committee raised the question as to whether that was an accurate statement of what has been the position of the Commission or court, whichever one it was that was being quoted. And anyway, they stirred up enough hesitancy about it that Mr. Bailey as chairman suggested that maybe they do nothing about it until the next meeting and in the meantime ask Mr. Blough to review all the facts and make a report to the committee at the next meeting as to what his findings are. I don't know whether this ought be aired or not, but at the next meeting I made a report in which I took pretty serious issue with some of the representations that Mr. May had made in his report. And Mr. May had come

because he expected it to come up. He had been furnished with a copy, all members of the committee had been furnished with a copy, and he had been furnished with a copy of my report. It was about a seven-page report, if I remember rightly. And he was very indignant, he just saw red. We had some discussion there at the committee, but ultimately, anyway, the committee decided not to issue the letter he had proposed, maybe they decided not to issue any, maybe that was it. Yeah, that was it. They decided not to issue any. And he was very indignant about it. It caused quite a cleavage between us for a little while. It didn't last too long, but it caused some cleavage between us, because in the first place, he demanded that I retract my statement and apologize. I said I couldn't possibly do that, because I believe what I had said and I hadn't done anything other than what the committee had asked me to do and it was my opinion and I had no other alternative. I certainly was not going to retract my statement and I saw no reason to apologize to him because I hadn't done anything except call the shots the way I had saw them. He was pretty huffy about it. He was going to go to the executive committee about it and I told him maybe that was a good idea, maybe that was the best way to get the matter cleared up.

SZ: That was the time Mr. Inglis was representative of Price Waterhouse on the Board?

CB: That's right. And anyway it blew over. Later on I invited him to come up and talk at my seminar in Columbia. He came up and it worked out. But this ended his effort to try to get the accounting procedure committee to put things through. He loved to play things in the background. In that correspondence with the New York Stock Exchange, he wrote most of that correspondence himself, from both sides. He was a consultant to the Exchange and he helped them to decide over there. And then he'd come back as chairman of the committee and he just loved to tell about how he was first at one end and then at the other. That's why he was so proud of it. He was the author of the whole business, practically. And he had gotten the committee to issue things. That one there he had written, one or two other letters that the committee had issued. And he'd gotten the public utility committee to issue a letter or two, or an opinion or two. And when this group decided, and I mention in my paper, the group had used a small special accounting procedure committee to make the recommendation to the council. Well the small accounting procedure committee was Mr. May and two others, I forgot who they were and so when they decided in this informal meeting to make a recommendation to council, well Mr. May said we'll make it through this committee. We'll have this committee make the recommendation and they made the recommendation went up officially before council. He liked to do that. Well when he found that someone on accounting procedure was questioning it and wasn't going to swallow would he had to say right off the bat, he lost interest in working with the committee and that was the area where he had worked the most; therefore, he lost interest pretty much in the institute. But not entirely. As he got older, unfortunately, he didn't know when to quit writing articles. He would send in articles that should never see the light of day. For your information: he would write articles, submit them to the journal, and the journal couldn't print them. If they would have printed them, they would have downgraded Mr. May terribly because they weren't up to his standards of his earlier day. And so they would send them down to the firm, and say, can't you fellas go over this and see if you can either make something out of it,

or get Mr. May talked out of it? And so a number of his last articles in the journal were actually Paul Grady's articles because he and Paul were, he admired Paul tremendously and Paul admired him. Paul wrote this book about him. Paul admired him, I know there is a tremendous amount to admire and respect about him. And it was too bad that he got into this position. In order to get something in the journal with his name on it, Paul would rewrite the thing and satisfy himself, I mean satisfy Mr. May that it was alright and then go back and sometimes it would just be hopeless. They finally talked him out of it.

SZ: Would that be the reason Mr. Lawler conducted an interview with him, perhaps in place of a manuscript?

CB: Yes.

SZ: Yes, I never thought about that before, but it's just what you said. I noticed also in the 1940s that, usually when there was a controversial article was accepted in the journal and published, Mr. May frequently wrote a short reply right after the article. It was almost the conscience of the institute in some ways.

CB: It was the conscience of himself, nothing to do with the institute. He just loved to get those things in and before anybody had time to turn around, he'd be back. He was retired or even before when he wasn't retired. Oh I guess he was retired most of the time because he went back in a little while during the war as an administrative partner because things came up, trouble, the McKesson & Robbins case had just hit a little before that. He went back a little while but then right afterwards, he was again retired. He was supposed to retire at 60, but he had passed 60. And he had an office, and he had a secretary, and he had nothing to do. And he didn't have very much to do, so as soon as one of these articles came out that he didn't agree with, he'd sit down and write an answer and bring it up there. Probably nobody else would have anyway, but at least he'd beat them to it. And his name was always good, he got a lot of recognition. His position would be recognized as something authoritative. As long as it wasn't too far out, the editors would accept it and put it through.

SZ: You mention in your speech that there was one Accounting Research Bulletin that withdrawn because there was strong negative reaction from the chief accountant of the Commission. Can you recall?

CB: I was afraid you'd ask me that question because I've been racking my brain as to what the subject was. I know it was done. They were practically ready to issue it. I've been racking my brain as to which one it was, what the subject was, why it, what the arguments were. And for the life of me, I haven't been able to remember.

SZ: In connection with the special committee on research program, in which you were a member in the late 1950s, this was set up evidently as a result of the speech by Mr. Jennings, the incoming president of the institute I guess that year or shortly before that.

CB: That year, yeah that's right. He took office in 57 and in his inaugural speech he indicated that it was his desire to see something, what the speech said itself. He pointed out that there needed to be some reexamination of this whole thing. And I think at that meeting, the council meeting, the organization's council meeting, I'm not sure about this, but I think at the council meeting that he asked permission to set up, or maybe he didn't get permission at council, maybe he just put it up to the executive committee. But anyway, he appointed this special committee very shortly after the annual meeting.

SZ: Let me ask you this question in general. There are a lot of episodes and developments that I will never know anything about that may have never reached print. I wondered if during your term of 17 or 18 years as director of research, whether there were certain points that ought to be brought to light: developments, special situations surrounding research bulletins, controversies, anything else that we haven't touched upon.

CB: Well, yes. In the suit that was brought by American Electric Power, or rather the, well I guess American Electric Power brought the suit. Anyway, Donald Cook was the prime mover. The reason why American Electric Power was so upset about the matter was that in their financial statements they had been treating the provision for, or the reserve for deferred taxes as a part of equity and their auditors had approved it. They had a firm of auditors, Niles and Niles, a relatively small firm, and they had approved it. One of the Kentucky companies, I don't know whether it was the Kentucky Power Company or some Kentucky company, is or was a subsidiary of American Electric Power. And they had filed a registration statement in which they had treated this reserve as a part of equity. Now, under the rules of the Commission, under the holding company act, a company had to have a certain percentage of its capitalization in equity capital and they could not issue bonds. This was for an issue of bonds, this registration statement. And if they issued those bonds, the bonds would exceed the ratio to invested capital, equity capital that the rules provided. When they submitted the registration statement, the SEC staff challenged it and cited the deficiency and insisted that this be put up above the line as a liability. The company resisted this because if they did that it would mean that they would have to issue more equity capital before they could issue any bonds. They weren't so much concerned about the Kentucky case--they could put a little more equity in there without any trouble--but if the principle held, then American Electric Power itself was going to be deficient in its equity capital and they estimated that it would be necessary for them to issue something like, I don't know, 63 million dollars more stock before they could issue any bonds. And so they were ready to fight this case. So they made a great to-do about it and challenged it. And they asserted, well somebody down there asserted, maybe Cook himself, to Andy Barr that the institute's committee intended that that could be treated as a part of equity capital rather than as a liability, and that the reason that they hadn't said so was because.... No I don't know anything about the reason they hadn't said so. But they intended that it could be used either way. That's the reason it was worded like it was. Well, Andy called me and asked me whether that was so. And I said no it wasn't so. The fact of the matter is that the committee assumed that everybody would recognize the fact that since it had been set up as a charged income it would have to be shown above the line, it would have to be shown as a liability rather than a part of

equity capital. He said are you prepared to testify to that fact. And I said yes, I'll testify to my best knowledge of the basis as to what went on at the time as the view of the committee. But I can't testify that it is the view of the committee, but it is my opinion that it was the view of the committee. Well, he said, is there any way of getting anything stronger than that. I said well the committee is going to meet next week, I'll put it up to them, let them decide. So when the committee met, I told them the story. I didn't know all the facts. I just knew that Andy had been told by somebody in connection with a case down there that this was a fact. I didn't know what company was involved, or anything about it. So I put it up to the committee, at least I think I didn't know, I'm not real sure about that, but I don't know that it would have made any difference. But anyway, the matter was put to the committee and they said well yes, this should be treated as a liability. No question about it. I did know what the facts were because I told them what the facts were. The committee said, well, yes, we ought to make that available to the SEC. We ought to issue a letter on it. There are three dissents to that letter, and the dissents were not because the persons who dissented disagreed, but because they felt that, with this controversy in the mill, we shouldn't step in now and issue a letter which would be used to settle a current controversy. See this, three of the 21 members of the committee, Messrs Jennings, Powell, and Staub, Jennings, that was the Price Waterhouse Jennings, you've got that down, Weldon Powell of Haskins & Sells and Walter Staub, Jr of Lybrand, Ross Bros & Montgomery--the Walter Staub I was talking about a while ago was his father--dissented to the issuance at this time of any letter interpreting accounting research bulletin number 44 revised. They said they'd be perfectly willing to issue this bulletin at any other time, but when it's in controversy like this, we ought not issue a letter. Anyway the letter was voted upon, agreed upon at that meeting. After the meeting, I called Andy and told him what happened. He said will you come down and testify in this case to that effect, and I said yes I will. So when the hearing was held on the Kentucky Power case, I was called by the Commission to testify as to whether the representation that had been made was in effect correct or whether it was not. I testified as to what the discussion had been at the time of the issuance of the bulletin, what my view was of the general feeling of the members at the time the bulletin was issued, and then about having put the matter to the committee and about the letter to which they had issued, and I read the letter. Well, the hearing was a two-day hearing, as I remember, at least there were two days after I got on the witness stand. But the day after the hearing, I got a call from Donald Cook telling me that he would like to talk with Bill Wertz and me about this opinion the Committee on Accounting Procedure was about to send out, this letter.

SZ: Well, what did Mr. Wertz have to do with it?

CB: He was chairman of the committee.

SZ: Oh, he was chairman of the committee.

CB: He was chairman of the committee at the time. So I said well I'd be glad to see him -- when would it suit. He said I am going to see Bill Wertz in his office at 11 o'clock; would you come down then, and I said yes I would. So I went down and he pleaded with

us not to issue this letter, and I said we have no alternative. The committee has approved the letter, and ordered it be sent to members, and we have no alternative. You wouldn't stand for someone stepping in and having your board of directors issue an order and having some employee say they weren't going to do it. Well, he said, Carman, I don't like to say this. This makes me feel awful bad, but, he said, you hired me at the SEC, and when I wanted to transfer to the public utility division, you arranged that the transfer; I married your secretary. We've always been very close, but if you go ahead and issue this statement, I'm going to have to sue you, Bill, members of the committee, and the American Institute for 48 million dollars. And I said, more power to you, Don; if you think you're going to get any substantial amount out of me, go to it. And I turned to a fellow by the name of Cohen that he had said used to be with the Commission, the utility division, and who was their house counsel, I turned to Cohen and said Don is enough of a lawyer that he should know better, but as long as he doesn't, you should know better that he has no basis. There's no basis for stopping the American Institute's issuing an opinion of this kind, and there are no damages that can result from it, because there's nothing malicious about it. And he looked kind of funny, but he didn't say a word; he didn't say anything. And so I said, well, I have a 12:30 luncheon engagement over at the Athletic Club, and it's now 10 minutes past time for my luncheon, and my host is waiting for me over there. I've got to go. If this is all you got to say, well, I'll just say goodbye and tell you that I'm sorry I can't help you. This is something that is out of the question. In the first place, you know as an accountant that it's right even though it hurts you, but that's neither here nor there. I hope that there will be no hard feelings for what we are going to have to do. So I went on to my lunch, and I went back to the Institute offices, and I got to thinking about this. And I thought, well, it's one thing for him to bring suit against me, but it's something else to bring it against the committee as a whole, and something else to bring it against the Institute. I better take this up with somebody else before we go ahead and release this. We had it all ready. It was printed and ready to drop in the mail. And Louis Penney was the president at that time, and he happened to be at a New York Society meeting that night to speak with the New York Society, and I thought, well, I'll wait, do nothing here. They aren't going to throw it in the mail tonight anyway; they're waiting for word for us. I think we had held it up. So I'll wait and talk to Penney in the morning and get him and Jack Carey together, and any other executive committee members they want, and let them make the decision. So I was sitting in my office at about 5:30, [and the] offices close at five. The doorman calls. He said, Mr. Blough, there's a United States Marshal down here who wants to see you. I said, would you bring him up. He said, well, I can't leave my post but I'll send him up. I said alright. So he came up; he came in and said, Mr. Carman G. Blough, and I said yes. He said I have papers to serve on you here, and I said thank you, I was expecting them, and I signed and took them. And he said who can I serve these papers to the Institute? And I said I'll take service on that one, too, and I signed that one. And I opened them up and read them. This was an order to show cause as to why, it was an injunction against issuing this letter or disclosing any further the nature of the letter. And a date on which to show cause why a permanent injunction should not be issued. So right away we got with our lawyers, and the case went to trial. The lower court ruled in our favor, though they immediately asked for an extension of the injunction, giving them time to appeal to the circuit court. The court granted that; so they went to circuit court. The circuit court heard the case

promptly, thank goodness, and they ruled in our favor. And at the request of the company, they continued the injunction until they had a chance to appeal to the Supreme Court. So they went to the Supreme Court, and there I think if they could get one member—the Supreme Court was not in session—get one member of the court, he could authorize the continuance of the injunction until the court has time to decide whether or not they'll hear it. Well, he looked at the matter and looked at the decision of the court, of the lower court in the matter, read it over. He said if I could imagine one judge in the Supreme Court supporting your contention, I'd sign this, but I can't. This injunction was dissolved.

SZ: So they really didn't sue for damages; they sued...

CB: To enjoin us. So then after all this, the SEC revised their rules on the proportion of equity capital to bonds, that made it possible for them to go ahead with their process.

SZ: The interesting thing to me was that since the decision rested in the hands of the SEC anyway, why would they have to be made against the Institute. The SEC would have to be informed of the intent.

CB: Why, sure. That's what I told them. What's all the nonsense? Here was his answer. Now this was Cook's answer. He said, well, if the Institute puts this letter out, then members of the Institute will feel obliged to qualify opinions on statements that handle it the way we handle it. And if there are qualifications by the accountants, then under the SEC's rules they will definitely have to reject them, and then I said, well, don't you think the SEC will act on this subject on its own, regardless of what position the accountants on the job take? And he said, well, we think we got a good chance as long as our auditors think its alright and express an unqualified opinion.

I would like to go back a little bit on this question about item 17 in the financial statements, in the income statement. Bulletin 35 of the Institute was issued very shortly after that conference and after that decision was made. And since we don't have the bulletin here, I don't know just when it came up but I have a rather distinct recollection about that situation. The chairman of the Commission, who at that time had been a broker in Detroit, went back to Detroit and made an address to some group up there in which he very strongly advocated the all-inclusive income statement, indicated that this was the position that the Commission was going to take, that is, that all items of income and expense, profit or loss, given effect to in the accounts during the year should be included in the determination of that income. And I think it was at that time that this release had come up in which the Commission indicated that it was considering making that a rule. The chairman of the Committee on Accounting Procedure at the time and several members of the committee and I went down to Washington and asked for a meeting with the Commission.

And the Commission gave us a hearing, and all five members of the Commission were present. And I have a rather strong recollection that [Edward T.] McCormick at that time was a member of the Commission, but, anyway, we argued against the all-inclusive

income statement and gave some examples, and finally the chairman broke in and said, well, tell me this, do you mean to say a company had been having an income of a million dollars, a little bit more or a little bit less over a period of years, and in a particular year it sold some securities that it had for a long time and made a profit of nine million dollars, that they would have to include, that they would have to show as net income for the year 10 million dollars, and we said, well, yes you can't read it any other way. All items of income and expense, profit and loss given effect to in the accounts during the year should be included as income. This is an item of profit that was included in the accounts during the year; it would have to go into the income under that rule. And his answer was "preposterous." This is the chairman – I think "preposterous" was the word he used. But McCormick chuckled "fantastic." I never could figure that out, because certainly McCormick should have known what the all-inclusive income statement meant, but anyway that was his comment. So then the Commission said, you fellows get together with Mr. Werrntz and work out a solution to this problem. To me, the all-inclusive income statement meant everything had to be on one sheet of paper, and so we went down into Werrntz's office and worked with him. He was adamant that this thing had to get into the income statement itself. We tried to work out a continuous income or surplus statement or something else, but he was insistent it get into the income statement. We finally worked out the compromise that we would come down to net income before special charges or credits and then item 17, and then income for the year. [Note: McCormick became a Commissioner in 1949. This anecdote evidently occurred in 1949-50, when Harry A. McDonald was the SEC chairman. But Earle C. King, not William W. Werrntz was then the SEC chief accountant. Donald C. Cook was also a Commissioner then.]

SZ: So you were attempting to explain to the Commission what the implications of the all-inclusive method were in respect to this case?

CB: That's right.

SZ: And they didn't like the results; so it really buttressed your position?

CB: Right. The chairman's own example was exaggerated, but it showed them how ridiculous it could be if you were going to make any decisions on the basis of earnings per share, income per share.

SZ: Actually, it turns out that I think on Monday the Accounting Principles Board issued an Opinion which seems to come closer to the all-inclusive notion than I think the Institute ever had.

CB: It actually does, and I think that it is in effect the all-inclusive income statement. Now this is a little history you might be interested in on this. The reason why the committee originally did not adopt the all-inclusive income statement, which at one time they considered in somewhat the same way in which it is worded in this opinion of the Accounting Principles Board. There were a couple proposals made. One of them was that we should have two figures of income in the income statement. One should be

income from ordinary operations, and then another would be income or loss from unusual transactions, I'm not using the right terminology, but you get the idea. And then the two should be added together as the net income for the year. The committee was somewhat favorable to that, and we discussed the matter at some length with a number of the reporting services, financial reporting services. And asked them whether they would report both figures if this were done. And the unanimous answer separately given was that they would not. Some of them said we'd take the final figure of that income and other said we'd take the income from ordinary operations. Neither one of them was willing to give two figures. A couple other different methods for combining them were tried out, but one of them was coming down to a figure for net income from ordinary operations which would be carried directly to the surplus statement, and the other one was the unusual items at the bottom of the income statement which itself would be carried directly to the surplus statement. So there would be two items on the income statement, the ordinary and the unusual, and they would be carried separately to the surplus statement. These again met the same reaction: they would not use both figures.

SZ: Did this mean that the income for the year then was the recurring income but there would be nonetheless below that an appearance of the amounts added in perhaps?

CB: That's right. That was the second proposal. I remember the first proposal, that the two items be there but added together, was Warren Nissley's proposal. But anyway about that time something happened which probably clinched the matter. General Motors Corporation came out with a quarterly report, I guess it was the annual report. They came out with their report in which they had carried back to income the unused reserve for post war readjustments. They had set up, pursuant to recommendations by the committee, this reserve, and then due to the fact that the government had provided for settlement and contract terminations that left companies in a more favorable position than they had been after World War I, they carried this item as unused back into income. Now, General Motors always followed the all-inclusive income statement. They take the position that there is no item that would be big enough to distort General Motors' income by including it. Therefore, they are on the all-inclusive and always have been, or have been for many years. Well, they carried that to income, but in their report to the press they put out a statement in which they discussed in the report the income for the year and then they specified that it included this item of unused reserve which I think was in the neighborhood of about 46 million dollars. But anyway it was a substantial amount. Most of the newspapers that we surveyed, I guess all of them as a matter of fact, the ones that usually report on these matters, reported both figures. They reported the net income and stated how much of it was a result of this special reserve. Just a few weeks later, Eastman Kodak came out with a report, and they had a similar situation. They had an unused reserve which they also carried back to income and treated exactly the same way. I think they almost copied General Motors with the press release, because it was almost worded the exact same way. And the figures were not too different percentage-wise, only instead of being 46 million of special items, it was a relatively small amount, a few million, I've forgotten how much. But anyway, none of the newspapers we saw picked up that extra figure, although percentage-wise it had just as much effect on earnings per share as did the General Motors. Well, this seemed to indicate that the only time these

unusual items would be picked up by the reporting services is when they were so big in themselves that it would impress the writers as being very material. Then, coupled with the position which the financial reporting services had taken, the committee thought that for the best interest of the investors for whom these records were being prepared, in order to judge what might come in the future, it would be better to have the current performance, a current operating performance method, rather than an all-inclusive method.

SZ: On the previous story you told, Mr. Blough, in connection with the SEC, do you remember the name of the chairman who originally broke this question in the speech in Detroit? I could always check this.

CB: No I do not remember his name. I just remember that when he was appointed to the Commission he was a broker in Detroit, but what his name was it slips my mind completely. [Harry A. McDonald, the first Republican chairman ever of the SEC.]

SZ: Another question, apparently this decision that the Committee on Accounting Procedure took resulted in, I think, Accounting Research Bulletin 32, which was, I think, accepted to by Mr. King in a letter that appeared in *The Journal of Accountancy* at the same time the ARB was published. Do you remember if this is correct?

CB: Well, I don't remember the event. If you have it, well, it has to be correct. If King had an article at the time of 32 and was reported as being the chief accountant at that time, then I have it all wrong about the other man being Bill Wertz.

SZ: Well, what happened as I recall was a letter went to you that was reproduced at Mr. King's request in the same issue which carried the Accounting Research Bulletin, apparently reflecting the chief accountant's view that this should not be the view of the Commission necessarily.

CB: Oh, well, I do remember that we did have a letter which was submitted by King in connection with something that was printed in connection with a bulletin, but I have forgotten which one or what was involved.

SZ: You were just talking about the Committee on Accounting Procedure and the reaction to the GM and Eastman Kodak reports occurring just after World War II, around 1946.

CB: I think that's right.

SZ: Could we go back for a few moments to the question we discussed the other day, in late 1937, early 1938 when the Commission through the chief accountant finally crystallized its position on its role in respect to accounting principles?

CB: That's release number 4.

SZ: Yes, resulting in release number 4 [Accounting Series Release No. 4, issued in April 1938.]. Can you recall now what the position of the Commission might have been in terms of the members? We have as members of the Commission in early '38, Mr. Douglas as chairman, Messrs Healy and Mathews also as members, also Mr. Hanes who had just joined the Commission, and Mr. Frank.

CB: I have the impression that when that decision was reached, there were only four members on the Commission, but I may be wrong on that. But I am quite sure that the ones who were in favor of issuing a statement on accounting principles were Landis and Douglas. [Landis left as Chairman on September 15, 1937.] And I know George Matthews was opposed to it. I have a feeling that, well I just don't remember who the other one was. I think it was Hanes, but I wouldn't be at all sure if he was opposed to it. A detailed determination of when these people took office. I think it was after Ross had resigned and before his replacement was appointed that this decision was made, but I'm not sure who succeeded Ross. [Ross resigned on October 31, 1937.]

SZ: You mention in your paper at the symposium the other day that this had been brewing since about 1936. Do you recall any other episodes or discussions that almost brought this issue to a head prior to that time? [Reference is to the Berkeley Symposium on Financial Reporting, held at the University of California, Berkeley.]

CB: No I don't. It was discussed almost every time that we had some very controversial situation, and some member of the Commission would say maybe we should get busy and do something about this, maybe we ought to get out a comprehensive statement. But never was vote taken; it was just a matter of argument. It was brought up often enough and with enough strength, as I remember, by Healy, but I think we'd have to say that it was hot all that period of time, but it never really came to a head until finally release number 4 was decided on.

SZ: Were there any informal hearings with representatives from the accounting profession on what role the Institute might play or how the profession might react to some statement such as the one that Mr. Healy advocated?

CB: Not to my knowledge. There were informal conversations with accountants, and I talked with a lot of them. I can't say that any particular—I know there was never a hearing on it. To what extent individuals talked to the various Commissioners, I don't know. But I know, in talking to me, the preponderant majority of them were very much in favor of having the Institute try to do something; maybe that was because I was leading them a little bit. I felt that way very strongly. It may be that they took the cue. Although I think that when we finally got down to discussing the matter, there was nobody connected with the leaders in the accounting profession who wanted the Commission to issue such a rule.

SZ: One of the most controversial bulletins issued by the Committee on Accounting Procedure was the one on stock dividends which suggested that market price be used as a measure for recording stock dividends. [ARB No. 11, issued in 1941.] I believe the US is

the only country, or one of the few countries, in which market price is used, and I wonder if this might have resulted from some abuses or some practices that were called to the attention of the committee and they wanted to rectify. Do you recall that?

CB: Yes, I do recall that very clearly. This grew out of a practice by International Business Machines Company issuing periodical stock dividends of relatively small amounts. The amounts of the stock dividends were charged at par to surplus, but the market value was substantially higher than the amount was given credit for as a result of the issuance of the dividend. Well, people felt that they'd gotten a share of stock that was worth, whatever it was worth, suppose it was a dollar share that was worth 30 dollars on the market; the person who got it thought he was getting thirty dollars as the dividend, but the company was only charging against earnings one dollar. In this way, they were able to boost the market price of their shares by the issuance of these stock dividends, because people took into consideration the stock dividends itself as part of the return they were getting on their investment, and this tended to increase the market value of the shares even further, and the stock exchange got very much upset about it. And so they asked Mr. May, who was also a consultant to the exchange, in a professional capacity, to bring the matter up to the Committee on Accounting Procedure. I'm quite sure he was a professional consultant to them at that time, although that might have ceased before this. But anyway they went to May and outlined the situation and asked if the profession couldn't do something about it. And Mr. May brought it up to the committee. I was still on the committee at that time, and this was in the days before individuals indicated their dissent at all. I took the position at that time that this was a financial matter and not an accounting matter and, therefore, it should not be dealt with accounting-wise. [In actual fact, dissents were reported in ARBs then.] If the stock exchange or the SEC felt that this was undesirable, they had rules that they could issue that had nothing to do with accounting, but dealt with financial controls or a representation, financial representation, and they could issue such a rule. But the committee voted the way they did anyway, and I think, I don't remember, the vote must show there were 18 or 19 members of the committee favored it, and 1 or 2 that didn't vote. Mine was of the 1 or 2 that didn't vote, as I remember. [In ARB 11, there were 15 in favor, four dissents, and two not voting.] When the Bulletin 43 was issued [in 1953] and these bulletins would have been gone over to see if any of them needed revision, I urged that the committee drop that bulletin out in the restatement for the same grounds. Bill Werntz, I think, was then on the committee, and Bill argued that this was so well established in the SEC that, if we dropped it out, the SEC would immediately pass a rule which would require the same thing, and since this had been treated by the committee as an accounting principle, this would be forcing the Commission to do just what we didn't want them to do, namely, issue opinions on accounting principles. I insisted that this was not an accounting principle and they demonstrated that by pointing out that it need not be done in closely held companies. But, nevertheless, that's how the matter came up, and that's the way it was settled.

SZ: That raises an interesting question, that not only does the Committee on Accounting Procedure and the Accounting Principles Board take action on new questions such as the investment credit, but they were rather limited on the approach they would take on the

review of old questions, because the SEC may not want to change in a rule because of established practice. And here I guess is an example you bring out.

CB: That's right. The SEC doesn't want to have the committee back away from or reverse a position which it finds very much in harmony with its own views. However, I don't think you could say that where the committee has taken established practices and tried to narrow areas of differences by recommending one to the exclusion of others that the Commission has taken any exception to it. Now, the investment credit, business the Commission has been criticized on that, and I feel like criticizing it myself, but the facts of the matter were that they were still were operating under their Accounting Series Release number 4. There were 6 members of the Board who opposed the first opinion on the investment credit and four of them came from the large national firms. Furthermore, they not only opposed it in the Board, but they said they were not going to follow it with the clients.

SZ: Is that the first time in the history of the Institute that a pronouncement was in effect rejected publicly by accounting firms?

CB: That's the first time I ever remember of it having been publicly announced that they weren't going to follow it. Some of them didn't follow some of the bulletins, but I don't remember any of them saying that they were not going to, not only were they going to vote against it, but their firms weren't going to go along with it. Now the Commission could have at that time come out and said that since the Institute had taken the position that it had and it itself was going to take that position and announce that it was going to take that position. Now they could have done that, but instead they were in its release number 4. Now in addition to the 4 large firms that took that position, there were a substantial number of corporations that were opposed to the spreading, which was recommended by the Board and communicated that to the Commission. Furthermore, the chairman of the Federal Power Commission, I was informed possibly confidentially, but time has gone so far back I don't think that makes much difference, had called the chairman of the Commission, the SEC, and urged that it not go along with the Institute, because they felt this ought to be taken up immediately, recognized at once. Several other Commission chairmen, regulatory Commission chairmen, state Commissions, I understand, also contacted the Commission and urged they do not go along with the Institute. The result of which was the Commission came out with its support of both methods, which simply knocked in half the Board's recommendation. My position, which you know from my dissent, was that if the Board thought it was preferable and had already said so, why back up, why not just leave that stand and the light of day would come around just as it did on the tax deferral problem.

SZ: Why did the Board feel it necessary to issue Opinion number 4 in effect concurring with the SEC? This wasn't the first time a practice had gone against a bulletin or an Opinion.

CB: No, it wasn't, and I've never been able to figure out why the individuals were _____ except they felt that actually their bulletin was contrary to what was being

done and wasn't going to be effective. And therefore they might just as well go on with the position that had been taken by the public generally, as was by the SEC. In my opinion it was wrong, but nevertheless, that's the way the majority, the two-thirds majority of the committee, felt, and so they did it.

SZ: You mentioned before that the New York Stock Exchange, through Mr. May, had some influence in bringing before the Committee on Accounting Procedure the question for accounting for stock dividends. Has the New York Stock Exchange in your recollection had much of an effect on the decisions taken by the Committee on Accounting Procedure? Have they asserted themselves very frequently on accounting questions and asked the committee to consider matters specifically?

CB: They have never, what you could call, asserted themselves. They have lain in the lap of the committee questions from time to time, but so far as I can remember they never tried to tell the committee how it ought to decide. They did raise questions. Among the questions which were thrown in the lap of the committee by the Stock Exchange I can remember in addition to the one on stock dividends, they raised a question which brought about the bulletin on stock options. I have a feeling there were one or two others that were thrown into the hopper by inquiries from the stock exchange, but right this minute I don't seem to be able to recall them. And since I don't have a list of the bulletins before me right now, I can't refresh my memory on them.

SZ: On the question of stock options, this is one of the areas where the Committee on Accounting Procedure changed its position from a bulletin in the 1940s sometime to the restatement in the early 1950s. Can recall any of the discussion or controversy surrounding each of those two bulletins?

CB: Yes, I can. The stock option bulletin in the first place was brought about as a result of stock options that were granted to the president of the Willys Company, Willys-Overland I guess it was called, I've forgotten. But anyway he was granted some stock options which became so very valuable that the stock exchange questioned whether or not this was compensation which ought to be recognized in some way as part of the cost of doing business by the corporation; even though it wasn't an outlay of cash, it was a dilution of the stockholder interest, and the issuance of the stock at a very low figure was in effect compensation to the president because of the alternative of selling that stock in the market which would have brought in a very substantial amount of additional income. The committee debated as to just how you should measure or when you should measure the value of the stock, and it seemed to them that in the first instance it ought to be measured by the value of the stock option, that is, the value of the stock over and above the option price at the time the stock is exercisable, when the individual had the right to go ahead and exercise the option. There was, of course, argument that this was completely unknown at the time the option was granted, [and] this was purely a speculation. Others argued that it should not be done at that time because many of these options were such that the man was not privileged to sell this stock until a given length of time after the stock had been turned over to him. Nevertheless, that was the opinion they came out with. Then at a later date there was a situation developed, as I remember; this

was a Peat, Marwick, Mitchell client where the stock option that was granted to an officer was such that, in the year in which the option was exercised and the officer was able to purchase the stock at the option price, a charge to income for the amount of value of the stock over and above the option price exceeded the company's net income for the year and threw the company into a loss by virtue of the issuance, the acceptance of this stock option, the exercise of the stock option. Many of the members of the committee didn't think this made any sense and that this was 'way outside the contemplation of the parties at the time the option was granted, and that actually what you should have is, what was it that the parties bargained for, what was the value of this option at the time it was granted? That was the time when the deal was made, when the contract was entered into. The reasonable anticipation that that date should be the measurement of the value of the option that should be charged against expense. We had conferences with a number of investment bankers as to what an option of that kind...how you would value an option of that kind, and all of them said we can't tell you how we would value an option until we have the specific option. Any option which requires that an individual perform services for a period of time before it could be exercised, we wouldn't touch. We have no way of knowing if the man would continue to serve until that time is up. A number of qualifications that were written in so many of these stock option provisions were such that no one could tell whether or not they would ever be or could ever be exercised, because they were contingent on events in the future. And so they finally came to the conclusion that maybe the only way you could measure it was the difference between the option price and the market at the time the option was granted. Since it wasn't very long after that, or maybe it was even before that, that the income tax law had been changed in such a way that very few people wanted stock options which exceeded... where the option price was less than the current market price by any less than 85 %, I believe it was, and for other purposes 95%. The question had really become moot on that basis of calculation.

SZ: You talked before about the time when Accounting Research Bulletins were issued without expressions of dissent, so perhaps the votes were recorded in the issuance of those bulletins and then later the practice was changed. I'd like to ask you two questions. One, who was the person who brought about the change in the practice, and second do you believe that the ability of dissenting members to frankly explain their position has made it easier or harder, or has not changed at all the ability of the committee, to reach a crystallized position in bulletins and Opinions?

CB: I think, to answer your last question first, I think the privilege of dissenting has made it easier to issue bulletins, because as long as there were going to be votes against a bulletin and votes for it, no individual was able to point to the bulletin and say, well, this was my belief, just as was my situation with respect to that bulletin on stock dividends. I can't prove by the record, unless we go into the files of the Institute, that I was opposed to it. So I think when people can indicate where they stand on it, it makes it easier to get the bulletin out than it would otherwise. Now I may be wrong on that, but that's my off-hand opinion. Now the way in which it came about, I can't tell you who was responsible for putting in the dissenting opinions. I've forgotten just when it went in, but I can remember the situation that brought it about. One of the bulletins, and I've forgotten

which one, it did state who had dissented but there was no statement of the reasons for the dissent. Now I've forgotten what brought about any statement as to who dissented, I don't know when that happened, I don't know when the other happened for that matter, why they dissented. But I do remember that in connection with one bulletin, Bill Paton and Roy Kester dissented. A number of persons commented on the fact, well, this is an indication that the practicing committee members view this thing from one angle and the professors who don't have any clients to worry about take a wholly different position on it. Well, the fact of the matter was that Kester and Paton were on exactly opposite sides of the fence. Paton felt that the bulletin did not go far enough, and Kester felt that it went too far or vice versa. Whichever, Paton was the liberal and Kester was the conservative, and I've forgotten which bulletin it was. So I can't tell you just which side they were on. That was, I think, the reason why it was decided, well, let's have these people say why they dissent so we don't have any misunderstanding such as this in connection with it. [This was ARB No. 2.]

SZ: Has the appearance of members of faculties generally been salutary? Do you recall any bulletins where perhaps the persuasive argument from one side or the other from faculty members has had any effect? I think there is a maximum of three [faculty] members on the committee at a time? How would you evaluate the practice of having had faculty members on the committee?

CB: Well, I would say that I felt that it was generally salutary, and that's one reason, as a member of the special committee on the research program [in 1958], I took the position that there ought to be representatives of the American Accounting Association who were in teaching on the Board. Now, it was not always evident that the faculty members were making themselves felt at all. There were faculty members on the Board, on the committee, who never opened their mouths, and usually they didn't stay on too long because if they didn't take any part. Usually, the next president was advised to drop them. But if they took part, then their views were given as much respect as anybody else's. Bill Paton was on the committee longer than any other member, if I remember rightly. And you know Bill well enough to know he never kept his views to himself. I used to tell him that he was the burr under the tail of the committee, he was constantly jibing at them for their views and always raising the specter that they must be giving effect to some of their clients' views and matters of that kind which stirred them up and made them very often consider viewpoints which otherwise they may not have given too much attention. And some of the other teachers on the committee were very effective, none of them in the goading way that Bill was, but there were other members of the committee that were very judicious in their views and had very fine comments to make which I think very definitely influenced the committee's action in various ways, but no one could say what convinced any one member of the committee or any members of the committee to take a position that they otherwise might not have taken.

SZ: Mr. Peloubet was on the Committee on Accounting Procedure for a very long time as well, I think, almost from the beginning of the committee to 1950. He was the only practitioner who went on more than, I think, several years, 3 or 4 years at the most. Any

particular reason why he was retained on the committee longer than any other practitioner?

CB: I didn't remember that that was a fact, but I know he was on for a long time. There was one thing about Maurice. In the first place, he was a very good thinker, he had a good mind, and he did his homework. No question came up on which he did not have a reasoned position. He was not a representative of a big firm. He was in fact a partner in a relatively small firm, but with some good-sized clients. He was quite a philosopher in addition to being a very good accountant. That's about all I can say. I didn't even realize he had been on that long, I wonder whether he was or if you went back over the years you might find he hadn't been off for a period of time in there.

SZ: That may be. Let me ask another question. Was it true that Mr. Anson Herrick was principally responsible for the committee's position on the current assets and current liabilities bulletin, especially with respect for prepaid expenses?

CB: Very definitely, very definitely. That was his baby, and he sold Oliver Wellington it, and between the two of them, they developed the bulletin. I think Herrick had the most to do with it, or a very large part to do with it, and the portion of it that he particularly had do with was the one with respect to the cyclical theory. And he also had to do with the accumulation of a liability where the liability depended on future events, as in the case of the rentals on railroad equipment [which] would be based on the number of car miles run—if there was a minimum, why that minimum would take effect. If there wasn't a minimum, then the liability at the end of the year was only what had been earned up to that time. The same thing he was interested in was primarily from the standpoint of timber companies. There was a contract in which a company with a large stand of timber from which they had borrowed funds from an insurance company, we'll say, and they were going to pay the insurance company so much per thousand feet cut on the principal in addition to interest. And you couldn't tell at the end of the fiscal year if any was going to be cut the next year, and, if so, how much, and therefore you couldn't tell what the liability was, but there was a liability for the amount they had already cut and was unpaid for at that time. And on top of that, if there was a minimum that was going to have to be paid for in the following year, that also would constitute a current liability. But you're absolutely right, Anson Herrick, it was Anson's baby, and he and Oliver Wellington, he sold Oliver Wellington on it first. Then the two of them sold the committee on it. I have to admit the rest of them more or less shrugged their shoulders and said, oh well, it doesn't really amount to very much, it's alright, we don't think it's very world-shaking but it's alright. We think it's a move in the right direction and they went along with it.

SZ: The subject of inventories was quite a controversial question. I noticed that it wasn't until about 1947 that the committee finally took a position, although I think that some years earlier they had requested the research department to prepare a study on inventories that did not actually lead to a bulletin. I wondered if you could talk about what might have delayed the issuance of a bulletin on inventories, such a controversial subject as long as it did, eight years after the committee was established and what factors seemed to be influential in the committee taking the view with respect to LIFO/FIFO that it did?

CB: The study of inventory, such that it was, and it was limited largely to the information furnished by members of the committee as to what their clients were doing. It indicated a very, very wide area of differences. Some companies valuing inventories treated market as being whatever the selling price was. Others treated market as what it could be sold at if it were sold at forced sale and in between all sorts of areas. And in the calculation of costs there were wide variations, all the way from companies that did not include in costs anything except raw materials and direct labor clear up to companies that included not only raw materials and direct labor but all indirect costs and allocation of costs of administration, and so forth. And some of them where they'd gone out in the warehouses, the allocation of selling the warehousing costs. But the variations were so wide that it just seemed hopeless to see whether you could ever get anything out that would put them together. And I think probably the reason nothing was done on it, it was just a task that the committee had sort of postponed because it was so difficult, and they didn't know quite how to approach it. And I don't think it was until Maurice Stans was on the committee and had some strong feelings about it, a subcommittee was appointed, and Maurice was made the chairman of the subcommittee, and he put a terrific amount of work into the production of that bulletin. And I would have to say that a very large part of that bulletin was due to Maurice Stans' own personal work, not that all the ideas were his, but he certainly took the ball and went with it, and it was only in minutiae, I would say, that the committee, even the subcommittee members, did very much to it.

SZ: And then in 1953, when Accounting Research Bulletin 43 was issued, that bulletin incorporated with very few changes, as Chapter 4, except one of the changes with respect to LIFO tried to set forth a rather broad criterion, that changes in costs be roughly similar with changes in replacement costs, and they took out this criterion and just said LIFO or FIFO. Do you recall what might have been behind the removal of this criterion broad as it was?

CB: The members of the committee who were very strong advocates of LIFO. Actually I'm a blank on that. I don't think I can help you. I remember that it was cut out, but who was influential and why, except for the fact that LIFO had become so widely accepted at that time might have some effect on it and there were members of the committee who were very strongly for LIFO.

SZ: You mention in your paper that about 1949, the committee on procedure appointed a subcommittee to deal with the question of preparing a comprehensive statement of accounting principles for guidance for practitioners but was abandoned in favor of issuing the omnibus bulletin in 1953. Could you indicate to me who might have been chairman of that subcommittee and what progress was made?

CB: Paul Knight of Arthur Andersen was the chairman of that subcommittee, and I can't tell you how much progress was made. As I remember, there were some 50 points that were set up and more or less agreed upon, but what they were or where you might find them, if they're still in existence, I don't know.

SZ: You mentioned the other day in your presentation an example of when the Commission used current value in connection with a piece of property, as I recall, a piece of land was it?

CB: Yes.

SZ: Could you indicate again what that was?

CB: Well, the one that I remember was a case where a bank had taken a piece of land on foreclosure of a mortgage and they had bid in at whatever the mortgage value was. The face of the mortgage was, as I remember it, ten thousand dollars. And then they incorporated this, no I think first, oil was discovered on the property. And they weren't chartered to be in the oil business and didn't want to be in the oil business. They incorporated that piece of property, and in the incorporation of it, they put it in at cost to the bank so that the sole asset of the corporation was this piece of property at ten thousand dollars and the capital stock of the par value of ten thousand dollars, if I remember the facts correctly. Then, later on somebody, shortly thereafter or maybe simultaneously, but shortly thereafter, a group of people bought the stock from the bank. Now I said the other day five million dollars, for some reason that sticks in my mind, but it could be something else, I'm not sure, but it was in the millions anyway that this group, syndicate, bought the stock of that corporation. What they paid for it, whatever this figure was, 5 million dollars, might have been 2 million dollars but anyway it was a very large sum in relation to the cost at which it was placed in the balance sheet. Then the group that bought it wanted to raise additional funds to exploit the property, and so they had a registration statement prepared and submitted to the Commission. Had they, instead of doing what they did, had they bought the land itself and then incorporated it, they could have incorporated it for whatever that purchase price was and put it on the books at the five or two million, whichever it was, and had no occasion for writing up. But they'd gone the other way around and bought the stock, and the Commission in that case, as I remember, took a position that this was so obviously a purchase of the asset that they could make an exception in that case. Now somebody, I believe it was Bob Sprouse, at the meeting the other day, told me that there had been some companies in the last three years or four years that had gone through reorganizations which resulted in an upward restatement of the assets. I know nothing about them, but he seemed to think this was a new exception, which I wasn't aware of.

SZ: This brings up the question of business combinations, which first resulted in a bulletin in 1950, and that bulletin was incorporated, I think, almost without change in Accounting Research Bulletin 43 only 3 years later setting forth certain criteria which were later changed, and I suppose many people would agree today are ignored to a large extent, in recording those. Mr. May, it seems to me, during the fifties kind of disagreed with this position. I think you referred to a memo issued somewhere around 1945, I can't recall by whom or to whom: it was within the Institute, saying that these should be recorded as purchases and they ought to be shown at fair market values, and I don't know if this really ever carried much weight. But can you recall what factors might have influenced the committee to develop this new notion of a cooling of interest in 1950, who

might have been strong factors in advocating it, perhaps Mr. [Edward B.] Wilcox? He wrote an article at the time, I know, on the subject.

CB: I can't tell you, I just don't remember. I do remember a good deal of conversation at the time, and I think the committee would have never issued the bulletin if they hadn't thought that the criteria were sufficiently clear, that they would never have a problem of dealing with companies where the two companies were very, very wide apart in their values. They visualized it as being two substantially the same-size companies, not exactly of course, but substantially the same size, flowing together. In those situations, so often, company A and company B are going together, and it was Tweedledum or Tweedledee as to whether company A became the continuing company, in which case company B's assets were revalued and company B's stockholders became stockholders of company A, or whether company B became the continuing company and A's assets were revalued, or whether company C was created to take over all three of them, in which case all the assets would be revalued.

SZ: It seemed quite arbitrary anyway, the decision.

CB: It was an arbitrary decision that could be made. It could go either way when you had two big companies working the thing out. Therefore, there seemed to be a lot of sense in just throwing them together, just like two big streams flowing together and intermixing with each other to the point where you don't know where one is. One came in where the waters from one and the waters from the other are indivisible. Therefore, it ought to be, they ought to be treated consistently, and here was the way it ought to be done consistently no matter which was the continuing corporation.

SZ: To remove the opportunity to become arbitrary, really?

CB: Yes, yes.

SZ: Back in the 1930s, you said that when you were Chief Accountant, one of the major controversies was the disclosure of the costs of goods sold and sales figures. I believe in 1939 there arose a case that was carried up to the Circuit Court of the District of Columbia in which a tobacco company protested the disclosure of certain kinds of information and the Circuit Court said that the Commission had the discretion in the Securities Exchange Act to decide for itself after hearings, which the Commission had conducted, on whether they should disclose this. Can you give me any instances or any anecdotes concerning the requirement to disclose—at that time might not have been a requirement, but eventually became a requirement after the period of trying it out had expired?

CB: Well, it was a requirement from the very beginning. It was written into the very first regulations or requirements the Commission put out that were to be followed under both the '34 and '33 Acts. In the spring of 1935, when companies were getting registered so their securities could be dealt with on the Exchange after July 1, about 2,500 companies, as I remember, filed registration statements under the '34 Act, and something over 600 of

them filed their sales and costs of goods sold confidentially. Now the Commission had a rule, which was not designed particularly for sales or costs of goods sold, but for any information that was required under the regulation which the company felt would be very harmful to it and its investors, [and] securities holders if it were disclosed, the information could be filed confidentially. They still can, and it will be held confidential until the Commission has given the company an opportunity to be heard or until they have been able to consider the matter to the point where they reach the conclusion that it has to be disclosed. They would notify the company that they would have to disclose it, or they had the privilege of withdrawing the whole registration. If they did not withdraw, it would be put into the public file inside of ten days. Well, the Commission held a lot of hearings in the spring of '35, I wouldn't want to say how many. It just seemed like a lot, sometimes it seemed like 100, but I doubt if it was that many, but there were a lot of them. And after the first few, there were practically no new arguments presented. Not only did they have hearings at which the companies appeared and made their arguments, but also they had investment bankers and security analysts, and those primarily testified as to why this information was necessary in order to judge the progress of the corporation. The Commission became satisfied all over again. Donald McCrudden had been responsible for writing that provision in the first place, as something that was necessary. But anyway, after the hearings the Commission decided that they would all have to be disclosed, so they notified everybody. As I remember, I'm a little vague on this, as I remember, there were three companies who withdrew their registration statements, and I think two of them came back in almost immediately, and I think the third one just stayed off the exchange. The primary objection was that our competitors would make this very expensive to us, if our competitors learned this information, why they could cut prices and do things that would put us out of business; so they would destroy us one way or another. Another one was particularly for small supplier companies, that if their buyers, such as companies that were supplying the Ford Motor Company with parts, if the buyer, Ford Motor Company in my illustration, knew what their margin of profit was, why, they'd be in position to squeeze them down to an unconscionable figure, and so forth. But the Commission decided that this information, after all, was so important to making a sound investment decision, and the probabilities were that competitors that really wanted to know had ways of finding it out. As an example of that John Madden, formerly dean of the school of commerce at New York University, told me about an experience he had. He had been called in to make a talk to one of these trade association. There were 21 members in the trade association, as I remember, and all of them were represented by their top officers, most of them the presidents, and he outlined to them the disclosure requirements under the new rules of the SEC and what they were going to have to do. Among them, he reported the sales and costs of goods sold. One president came up to him after the meeting was over and said, well, this is just terrible, terrible for us to have to give this information to our competitors, and John said, well, tell me, don't you have any information of this kind in respect to your competitors? And he said, oh yes, and he pulled a sheet out of his pocket, and on that sheet he had in columns a substantial number of figures for every one of the 21, the other 20 companies that were in there, including costs of goods sold. John said he looked at it and saw that's what it was and said, well, if you were able to get this about your competitors, don't you supposed they can get it about your company? And he said,

my God I hope not, and he stuck the paper back in his pocket. Well, that was the sort of running your head in the sand. After this regulation was out for a year or two, I wrote to a number of the companies who had put up the biggest fuss and asked them whether, now in the light of their experiences, they had found that they were really suffering as a result of the disclosure of this information. As I remember, about a third of them didn't answer at all, and of the ones who did answer, most of them said that they hadn't been able to detect any bad results. Some of them said, well, we don't think that enough time has elapsed to know whether this hurt us or not, and others said we think it has, but we're not able to measure it. Of course, the fact that so many companies now are not required to do so by the SEC do furnish the same information to their stockholders, where you have to conclude a lot of that was being scared of the dark.

SZ: One question I'd like to ask is about the special committee on research program of which you were a member, and Mr. Powell was chairman, which led up to the new research program of the Institute. Would you say that the major change to come out of that committee was really the research division? And that, perhaps, I'm trying to avoid putting words in your mouth but I'll get your reaction anyway, the accounting principles board itself was essentially the same composition and mode of operation as its predecessor, the Committee on Accounting Procedure?

CB: Yes, I would say you are absolutely right. After thrashing the matter over at a considerable length, it was concluded that the Committee on Accounting Procedure had been pretty effective. I complained as the director of research, I complained because I had to spread my little staff of four CPAs over some 25 committees of the Institute, and we were not able to give enough time and attention to the Committee on Accounting Procedure. And actually if they gave the director of research, and I was approaching my retirement, if they gave me and then my successor as director of [accounting] research enough of a staff to really work with the committee as we had in the early days before we were loaded up with all of this other stuff, the Committee on Accounting Procedure itself would make a great deal more progress and would do a better job. I thought, my own reaction was the set-up was pretty good. So then the fellows decided that what was really needed was a research staff that would not be pulled off and put on other jobs like mine had been, and that if there was a problem the auditing committee had that they wanted research on, they couldn't call on my staff; they'd have to get their own staff or work out some other way. And if the committee on national defense had a lot of research to do, why they'd have to get someone of their own, and they couldn't pull out as representative someone from the research department. And therefore it was decided to set up this special department, the accounting research department, that would have absolutely nothing to do with the other committees except the Accounting Principles Board. And then in order to give a little more force and continuity to the board rather than had been in the case of the committee, rather than have the president each year make the appointment somewhat whimsically if he felt like it, although he usually asked for advice particularly from John Carey, nevertheless, if the president of the Institute decided to change half the committee, he could. I don't think he ever did on the Committee on Accounting Procedure, but on occasions more than half of the auditing committee had been changed at one time. And there was always the possibility that someone would do the same with

the Committee on Accounting Procedure and also that some president might get the idea that he would like to see certain things done, that he would pick members on the committee that would do things the way he wanted them done. So it was decided to put this in the hands of the executive committee in the first place to give some tenure, so that a person would have three years on the committee, if you're stuck with a bad [one], then ok, you're stuck with him, that's too bad, but at least the good ones would have three years to get acquainted and work.

CB: Under the original charter, the director of accounting research had the sole discretion as to whether to publish or not to publish. Now, when it came to the publication of Accounting Research Study number 3, practically the entire advisory committee opposed this publication and urged that it not be published. The director, Maurice Moonitz, felt very strongly about it, he being one of the authors and believing firmly in it, insisted on exercising his prerogative to publish, notwithstanding any decision or any advice by the advisory committee. Now, originally it had been assumed that the advisory committee, since it would be made up of some members of the Accounting Principles Board and some other persons who would be vitally interested or well informed on the subject, they would be more than just offering their advice, that their advice would be given some consideration, and nobody visualized, I think at the time the charter came out that the director of accounting research would proceed as he did in the case of Research Study number 3, and would insist on publishing it anyway. While that study was in the process of being presented to the printers, getting ready for the printers, some of the members of the advisory committee objected in the board meeting to the publication of it. There was very strong comment to the effect that it should not be published. The director of accounting research, Mr. Moonitz, and Weldon Powell, the chairman of the board, got together and finally Powell came before the board and said that he had reached agreement with the Director that no subsequent bulletins would be published unless at least half of the members of the advisory board favored its publication. Members of the board raised strong protest as to why that should not apply equally to Accounting Research Study number 3. But Weldon said, well, I reached this agreement with the director, and this has been a voluntary agreement on his part, and I've agreed to exclude Study number 3, and I think we ought to let it go ahead. And, anyway, we don't have the power to stop it unless we get Council to change their position. And so the result of it was number 3 was published, the board did make the statement that it made, and subsequent research studies were not issued unless at least half the advisory committee favored the publication.

SZ: You think that the issuance of the principles study which was greeted by such strong negative reaction might have made less acceptable for possible future discussion number 1, which perhaps was rather neutral with respect to the principles which might have been applied?

CB: Well, the feeling with respect to number 1, was, oh, well, so what? What does it amount to? It's a bunch of statements of the obvious, and there was no great feeling about it one way or the other. Nobody on the board, I think, very few at least on the board, had any feeling that the postulates study really meant very much except in so far

as it had a few items in there which sort of make items objectionable items in number 3, natural to follow.

SZ: Was it true that an accounting research study was actually dropped, perhaps on the subject of nonprofit accounting, accounting for nonprofit institutions?

CB: Yes.

SZ: Do you know anything about the circumstances that led to that?

CB: Well, I can't tell you very much about it. It was dropped by the research staff, by the director of research. Emerson Henke was the researcher on the subject. Now he's at Baylor University. He drafted a statement to which the advisory committee took a rather violent exception, and it was then redrafted, and I think there was a third draft. While I may have seen a copy of those drafts, I'm not even sure that I did. At least the advisory committee members saw them, and they did not like them. And the director of accounting research saw them, and it was decided that they weren't getting anywhere with anything that was acceptable, and really no one knew what would be acceptable. While the advisory committee knew that they didn't like it, they didn't know what they would like. Anyway, it didn't seem too vital in the area of accounting for investors and prospective investors, which the board had primarily in mind, so it was just decided to drop it.

SZ: Did the special committee on research program have a notion of what would be done on the subject of terminology which had until then been included under the jurisdiction of the Committee on Accounting Procedure?

CB: No. It had not been until then, except to the extent that the Committee on Accounting Procedure had to pass on any publication dealing with accounting principles before it could be published, just the same as the auditing committee had to pass on anything before it could be published by the Institute committee on matters affecting auditing and the tax committee the same way on tax problems. At one time, the Committee on Accounting Procedure functioned as—no, they never functioned as the terminology committee. You'll notice those terminology bulletins were issued by the terminology committee of three parties. You'll also notice that those bulletins were written by Mr. May, and that could be by virtue of his position on the Committee on Accounting Procedure. He got them injected into the accounting research series. Later on they were pulled out, at the time of the revision and restatement, they were pulled, out and a separate restatement for the terminology committee was published.

SZ: But apparently it wasn't contemplated by the special committee on accounting research program what would be done with the work of the committee on terminology in their new program?

CB: No.

SZ: Is there presently, do you know, a committee on terminology?

CB: I think not.

SZ: The matter is just open at the present?

CB: That's my understanding.

SZ: I see. Well, looking back, being a member of the Accounting Principles Board for five opinions and also for a number of Accounting Research Studies that have come out, how do you evaluate the work of the new program in the light of what seemed to have been the objectives when you were a member of the committee? Has it proceeded pretty much in accordance with your expectations, or has it not in one or more ways?

CB: Well, I think it did not, the board did not. I think the accounting procedure committee did proceed as was contemplated—well, maybe not as contemplated when it was set up, because I don't know that there was any clear-cut determination as to whether or not it had a responsibility to get out a comprehensive statement. I think not. I think it was set up to meet this challenge of the Commission, and it proceeded in the way it thought best to proceed. And I think it did follow what it set out to do, primarily. Now, the board has not accomplished what was originally recommended by the special committee. I think maybe the special committee was making recommendations which were more hoax than real expectations with respect to a comprehensive statement of accounting principles. Some of the members of that committee recognized the fact that it was going to be quite a job to ever get out a comprehensive statement, but they all had the feeling that, if it could be done, it should be done. It would be very desirable if you could ever do it, and certainly this board ought to be the party to consider the ability to do it and try to do it. The special committee had some objection to the appointees to the Committee on Accounting Procedure in the later years, because in the earlier years the persons who were dominant in each firm, in determining the policies of each firm, were on the committee. When they reached an agreement in the committee, why, they were in a pretty good position to put it into effect by their firms. Towards the end, some of the firms who were permitted, incidentally, to suggest who in their organization they would be willing to give the time to serve the committee, they suggested people whom they thought would benefit the most for the firm by being put in that position, not the ones who were now making the decision, but the ones they hoped would be qualified in a few years to take over and make the decisions, and the result of it was they always had to go back and clear with somebody before they could really express an opinion. Now, of course, the ones who were dominant often did clear, but since they were largely the influential partners, they could make commitments pretty nearly positive. But we had some members on the committee who had to go back for nearly everything, and this wasn't satisfactory. And this was discussed in the special committee when considering the whole program; so it was the conclusion of the special committee, and I don't remember how we worded it, but somehow or another it got into that report, I feel sure, although it's years since I looked at it, that people who had primary responsibilities in their organizations should be the ones that should be appointed to the board, though there

could be conviction by one member of the board to another member, convincing him through argument that this didn't have to go second-hand, because a second-hand argument is never good. If you convinced a junior that something had to be done, he had to go argue with his senior, and he could never be as convincing as would the board's general discussions be. So it was contemplated that the influential men making the decisions would be the ones who would be in this position. Well, this was taken entirely too literally, and the administrative partners of the big firms were the ones that were appointed. And at first, Bill Black and Leonard Spacek refused to be appointed, because they said "we deal primarily with administrative matters." We have a committee headed by so and so which is responsible for these technical matters, and we think the chairmen of these committees ought to be on the board rather than ourselves; so they were never put on. And Arthur Andersen and Peat Marwick had no representation on the first board that was appointed.

SZ: I didn't notice that.

CB: An 18-member board was recommended by the special committee, and 18 members were appointed at first. Since those two refused to accept appointment, they were bypassed, and two others were appointed.

SZ: By decision of Council or executive committee?

CB: No, no. This was by the executive committee. And later, I think at the time of the next Council meeting, by that time, Arthur Andersen and Peat Marwick were beginning to feel the absence of contact with the board, and they finally agreed, both Leonard and Bill Black, agreed to go on the board. At the next meeting of Council, the recommendation was made the members be increased to 21. And then Spacek and Bill Black were appointed and some third party, I forgotten who, to fill out one for one year, one for two years, and one for three years. [Joseph Campbell was the third man.] This went along until we had this new, late committee, I've forgotten what this last special committee was titled, but the committee's that's called the Seidman Committee recommended that they go back to the original 18, and so now they have dropped one member the year before last year, and they have dropped one member this past year, and they will drop another one next year which will bring it back to 18. This was approved by Council, incidentally.

Now, as to how the board has performed, I was leading up to that by pointing out that these administrative heads were on the board, and they had other responsibilities, very heavy responsibilities in their own organizations, and they could not get down to brass tacks and work out these details. The result of it was so many of them did nothing but come to board meetings and discuss questions at the board meeting. The idea was sound provided you got the right man. Now, we also, in considering the business representatives that were to be on there, we did not want persons who were controllers if there was someone over them that overruled their decisions on accounting. We wanted either the president, who had the final say, or a financial vice president, or a controller who had the authority to make the final decision on all accounting matters in his

organization. And so far you have only had presidents and financial vice presidents, I think, representing companies, and of course they are all CPAs, because they are all members of the Institute. They have all had substantial experience outside of their own corporations before they got into their corporations. But, anyway, because of the makeup, I think largely because of the members of the board, we didn't get very much done. The staff didn't know what to prepare, we didn't get down to brass tacks on things, and the whole thing sort of stagnated. A long time ago, I voiced the opinion in the committee, in the board meeting, that until the members of the board were willing to divide up into subcommittees and get down to brass tacks, take off their coats and get to work themselves, they were never going to get anywhere. I don't remember if anything of that nature got into the Seidman Committee report. I was on that the last year. The first year I was not on it, but after Bill Werntz died, I was put in his place, and Seidman was put in the chairmanship of it. But anyway, I don't know whether anything was put into that committee report. I have some doubts, but it was discussed, I remember, at the time. But anyway, in the last few years, under chairman Heimbucher, they have done just that. They have divided up into subcommittees, they have really gotten down to brass tacks, and for some reason or another they have injected into them the decision to make decisions and not to pay too much attention to the "hoi polloi" that might object to a decision if they believed it was right.

SZ: And evidently the composition of the board changed by the administrative partners largely dropping off and being replaced by the chairmen of their committees on accounting principles?

CB: I'm sorry, I intended to mention that. That's just right. At the present time, I don't remember who the members of the board are, but I think there are two administrative partners on the board, and they have substituted instead of their top technical people who are the ones who actually make the decisions in the firm on matters the Accounting Principles Board would have to deal with.

SZ: John Queenan may be the last administrative partner.

CB: John may be the last one, and, if so, they have a man who had a great deal of interest in accounting principles and who was on the accounting procedure committee for a long time and does have a tremendous ability to cover a lot of things. But Haskins did not have its administrative partner on for a while, because Weldon Powell was on for them, and he was the man who passed on the matters largely for the firm.

SZ: The Committee on Accounting Procedure did have subcommittee, too but not to the extent that the Accounting Principles Board now has?

CB: Possibly not to the extent they now have, although they had subcommittees on every bulletin that got out.

SZ: This is not a new idea except for the board?

CB: This is only a new idea in the board. This is not a new idea for Institute committees. The Committee on Accounting Procedure, the Committee on Auditing Procedure and the Committee on Taxation have worked with subcommittees for a long time.

SZ: Mr. Blough, thank you for being so patient and informative.