

Securities and Exchange Commission Historical Society
Interview with
Robert Kueppers
Conducted on November 10, 2010, by Kenneth Durr

KD: Interview with Robert Kueppers, November 10, 2010, in Washington, D.C., by Kenneth Durr. With the exception of some time with the SEC, we're looking at a career with Deloitte.

RK: Largely.

KD: Did you go into Deloitte right out of college?

RK: I did. I graduated in 1976. At the time, the accounting profession consisted of eight, the old Big Eight. I was one of those kids that was lucky enough to get eight offer letters and I ended up – this was Minneapolis – I ended up going with Haskins & Sells, partly because I knew somebody there. He seemed like a really good guy. I figured I had to pick one of them, why not Haskins & Sells?

KD: Tell me a little bit about what you found when you got into that.

RK: Starting out as a staff auditor, some of the realities of working with clients were pretty new. I never worked professionally before, but immediately was assigned to a twelve-week assignment out of town in a little tiny city up in northern Minnesota. With all the travel and the back-and-forth, it wasn't particularly glamorous, but I found the work to be

as challenging as promised. I immediately took to it.

Auditing, over the thirty-five years, has been a passion of mine. Early days, it's all about who you work for, how they train you, what the sensitivities are, tricks of the trade or the little tips to make you more effective in your job. As a young person, you're like a sponge. You absorb it as fast as you can. I really did enjoy the work.

KD: The firms have their own character. Tell me a little bit about Haskins & Sells, and what you soaked up about the legacy, and what you were supposed to uphold there.

RK: Haskins & Sells, again, eight firms, and it certainly wasn't the largest. Its legacy, as with many of the firms, was long-term, dating back to the late nineteenth century. Haskins & Sells was known for two things. One: one of the most significant auditors of the brokerage industry, the big bulge-bracket firms on Wall Street, but also large industrial clients, and in many ways has developed during those early years, came to be known as sort of the auditor's auditor, kind of distinction, a pride, if you will. It always felt like the right place to me, maybe because I didn't know any other. It felt good to be part of a firm that had such a strong legacy.

KD: Were you able to get involved with other areas of the profession, the AICPA or anything like that in these early years, or were you focused on the firm?

RK: I was focused on client assignments and getting the work done, and trying to get a good

evaluation at the end of it, and the best kind of raise I could get. Very early in my career, at five years, I was approached by one of our senior partners who said, "I've got an offer you should consider." I said, "Okay." He said, "Here at Haskins & Sells, we don't make managers until you have six years of experience. However, you're doing very well. At five years, we would consider promoting you early, provided you're willing to move to New York City and take an assignment in our national office." That just seemed like an offer that was too good to refuse. I'd never lived anywhere, but where I grew up, and so my wife and I, in 1981, came to New York.

KD: Called up to the big leagues, so to speak.

RK: It felt that way to me. I figured they wouldn't make that offer to people that they didn't trust to do well. The purview of my job changed. I started working with people outside Haskins & Sells – by then it was called Deloitte Haskins & Sells – and began to know people in the other firms. It was my first view of the profession, more broadly speaking.

KD: Was it shortly after that that you got involved with the Professional Accounting Fellowship?

RK: It was, because the assignment in New York was a very clear, twenty-three month duration. In those days, there were some tax advantages to structuring it that way. At the twenty-second month, I decided that I really liked New York, and came up with a value proposition for the partners at the time, saying, "You really can't afford to lose me right

now, I should stay a third year." They readily agreed.

It was during that third year when one of the young partners who had returned from the SEC just a couple years before, approached me and said, "You shouldn't go back to Minneapolis. You should apply to be a professional accounting fellow at the SEC," because he had done that very thing.

KD: Who was that?

RK: Steve Golub, Steve is with Lazard today. He's a partner at Lazard, been very successful, a bit of a mentor to me in those days. I started to learn that the PAF program, as it's called, was highly competitive, which didn't really surprise me. There were many more applicants than positions available. In those days, they would pick two a year. There would be eight, ten, twelve applications. The odds didn't seem very good. But, indeed, I succeeded in getting that appointment. That took me from New York to Washington in 1984.

KD: Did you interview with the Chief Accountant of the SEC?

RK: I interviewed with the Chief Accountant and his staff, his folks. The most interesting thing was, in those days, at least, there was a dinner at the end of the day. The SEC Chairman would come to the dinner. Of course, that's a pretty big deal for a young manager in an accounting firm. The Chairman would actually interview, in his own way,

over dinner, all of these candidates. I don't remember the specific question that was directed at me, but I know at the time I felt my answer was exceedingly clever. For whatever reason, I came out on top. It might have been the fortune cookie at lunch with the Chief Accountant that said something about "a good offer will be coming your way." While I didn't put that in the bank, it felt good, at least.

KD: Was that John Shad? Was he in there anywhere?

RK: John Shad was the Chairman at the time. He arrived, I think, in 1983. He was there the entire two years of my assignment, from '84-'86. I think in '87, he was gone. I'm trying to remember who followed him. I remember him being the vice chairman of E.F. Hutton prior to his arrival. He was very much a Wall Street guy. Not a deep understanding of accounting or auditing, but yet as Chairman, of course, he had to answer for everything. It turned out that even though I had a technical role, I was told by the chief accountant to spend time with the chairman and the folks in his office to prepare him for some upcoming congressional testimony.

KD: Let's get to that. Let's go back a little bit and talk about that Chief Accountant. Was that Clarence Sampson?

RK: Clarence Sampson was the Chief Accountant when I arrived, certainly for the first year or a little bit more. He retired and Ed Coulson became Chief Accountant thereafter. Talk about night and day, Clarence and Ed were both extremely talented, but very different

personalities.

KD: In what way?

RK: Clarence was really very much by the book. What I really respected, when we met with public companies that had a challenge to their accounting, Clarence had a very measured way of dealing with everyone. He always said, "Look, if the company has substantial authoritative support for its position, we as the SEC, should not be forced to tell them they're wrong. On the other hand, if they don't have that support, and we disagree with their accounting, they should be forced to change their accounting, either by restating their past financials, which of course is sort of the horror everyone – restating your numbers is not an experience you want to go through.

KD: And far less common then, I would imagine?

RK: Far less common then. A restatement in those days was a life event in a corporation's history in that time. The question always became, if we didn't prefer their accounting, were we going to make them restate because it was wrong and not supported? Or are we going to make a strong suggestion that going forward they change their accounting to a different method? There was always a tension between the chief accountant's office, who made the final call on that question, and the folks in the division of corporation finance, who probably reviewed the filing, discovered the issue, and raised it in the first instance with the company.

But through the process of appealing, it ended up in the Office of the Chief Accountant, and often times that led to a conference with the company, its lawyers and its auditors. They would come in, meet with the Chief Accountant's office, including the fellows, people in my position who probably had the lead, and then the folks from the Division of Corporation Finance who were reviewing the filing, and had what we would call an open comment letter process, and it was unresolved comment. That was always the final meeting, the conference and related answer.

KD: We were talking a little bit about the process of your dealing with a registrant who showed up on Corp Fin's radar screen. What piqued my interest is, you talked about there always being a tension between the chief accountant's office and the Corp Fin people.

RK: Well, yes, and I'm speaking very specifically. Some of this goes to personalities. There's no question that one division of the Commission had challenged the accounting, through a series of interrogatories back and forth, saying, "We're concerned about" or "We are asking questions about accounting," and eventually unsatisfied that the company had appropriately responded to remove the concern. You're at loggerheads, at that point, between the company and Corp. Fin.

Then the question is, is the company going to pursue this by appealing it to the front office in Corp Fin, the chief accountant of the division of corporation finance?

Depending on how that goes, at least in those days, then to the office of the chief accountant, who was the chief accounting officer for the entire SEC?

Indeed, that was often the outcome, partly because restatements were a big deal. They still are, in my view, but in those days they were even more rare. The consequences of a restatement between maybe not being able to go to the market for a while, or litigation, or anything that could flow from that, companies tended to pursue it to the highest authority.

Technically, even if the chief accountant disagreed with a company, you could pursue it to the Commission itself. But at that point, that was not a very common practice; having the entire staff of the SEC on one side and you on the other. The Commission's going to be very circumspect before agreeing with the company.

KD: Let's talk a little bit about your job. I get the sense that the professional accounting fellows were able to undertake projects and things like that? Or did you just sort of weave into the pattern of everyday work?

RK: The office in those days, which was certainly less than twenty, including administrative types: fifteen people, four of whom of that complement were professional accounting fellows. What tended to happen was that the big issues that created volume, call volume, and policy question volume, were sort of assigned. So for my two years, Business Combinations was my area, so mergers and acquisitions accounting, effectively.

In that capacity, I spent a lot of time with the national offices of each of the large firms. I spent a lot of time making presentations on panels, working with the AICPA and its various committees, but taking that subject matter all the way through wherever it would interface with people on the outside, or even people on the inside. If you were the business combinations lead, all those questions would essentially end up on your desk. You would work with permanent staff, with deputy chief accountants and the chief accountant, to formulate a point of view, either on a registrant's specific question, or there's emerging issues, how are we going to deal with that, what's the SEC's position going to be on some new twist or turn on business combination accounting?

KD: What was the balance between making concrete decisions about things that have already happened, or trying to set up for emerging issues?

RK: I think the majority of it was registrant questions. Whether it's sixty/forty or seventy/thirty, I don't know. But during that same time, in 1984, I attended with Clarence Sampson, chief accountant at the time, the inaugural meeting of the FASB's Emerging Issues Task Force. That was a brand new process. Because there was a lot of volume, getting resolution quickly, so people could have guidance, was a problem.

The EITF had met for the first time in 1984. I remember traveling with Sampson to that meeting. As chief accountant, he had observer status with the privilege of the floor. If the direction wasn't going well in his mind, he could say, "That's all well and good, but the SEC will never accept that," for example. That would tend to set the tone.

KD: This is a FASB group?

RK: It was a FASB group. It still exists today, although it meets much less frequently. This used to be on a cadence of, I don't know, every eight weeks or so, they would meet on emerging issues.

KD: You're coming off the big merger wave and the M&A stuff, the takeovers of the early eighties. Was that what was driving this necessarily?

RK: It was a combination of what I call merger and acquisition accounting, or business combinations, as the accountants like to call it. Also the explosion of financial products was beginning to take shape. The Wall Street – I'll call it the engineered product – all kinds of defeasance deals with debt, packaging together a new security that had some equity element, some debt elements, zero coupon, pick preferred stocks, all kinds of things where they were hybrids. The question came to the floor, "How does the issuer account for that? Like a debt security? Like an equity instrument? Where does it go on a balance sheet? Is it in equity? Is it outside of equity?"

All these questions were accelerating as Wall Street was becoming more creative. That period from, let's say '83-'84, all the way through October of '87, when the market took its turn, that was the budding industry on Wall Street. A lot of those things would come to the SEC, including, I will use a little example, happens to be a client of mine today at

Deloitte, but in those days the General Motors merger with EDS, Electronic Data Systems, and their new Class E stock. The SEC had to deal with that on how the heck do you compute earnings per share when you've got a unique security like that? Those kinds of things were very routine in our office in those days.

KD: Presumably, accountants and firms out there are having to make decisions about how they're going to handle this before the EITF is able to weigh in. How is that working out? Would you sit everybody down and say, "Well, here's how we did it. Here's how we did it," and try to come to an agreement?

RK: Let's say you're – I'll just make this up here – you're a Fortune 50 company, that's a unique accounting question. Once you've researched it and you think you know what the answer is, you're going to talk to your auditor. If the stakes are high, there were a couple of choices in those days. There are probably a couple of choices these days, as well. Should we go to the SEC and go directly to the office of the chief accountant and get – I call it the insurance policy, by pre-clearing the answer, so that we're not going to be surprised in the subsequent review by Corp Fin with a lot of questions about, "How did you ever justify this accounting?" Most mature companies prudently would say, "Maybe that's a good idea. I don't want to find out after we've already done something that we've done it completely wrong. The stakes are too high."

In other cases, they would say, "Well, this is not that big an issue. Let's use our audit firm, or other people in the accounting profession, to start vetting this through the

emerging issues task force of the FASB." Those were two routes one could take.

If it was a big deal and it had a dramatic impact on your financials, generally you couldn't wait for the Emerging Issues Task Force process, which could span multiple meetings over multiple months. In other words, it wasn't designed to be for a company specific question. If Wall Street came with a new product and this client, that client, and the clients over at KPMG and PricewaterhouseCoopers and Ernst & Young were seeing the same thing, sometimes the professional put his head together and say, "I don't know what the answer is. Let's all take this to the EITF, so we can figure it out across the board. Let's get some consistency and not have firms staking out different ground on the right accounting answer."

KD: How efficient was the EITF in pulling it off?

RK: In early days, when the issues were narrower, I thought it was relatively effective. I know what happened over time. I remember we started numbering the issues. Was it in 1984, 84-1 was the first issue. If I'm not mistaken, it was about debt defeasance or debt classification or something. The issue summary was two pages. The codification of the answer was a half-a-page or something like that. I may be off a little bit.

Over time, as the complexity grew, we got into the nineties, some of the issues summaries were a hundred pages long. They had all kinds of views, alternate A, B, C. The issues became so heavy just of their own weight that parsing through them, and

getting to an answer became more and more difficult, frankly.

KD: Is that just a matter of putting more qualifications on things, being unwilling to come down?

RK: During that entire period of time, throughout the eighties and into the nineties, more and more detailed rules were being promulgated by the FASB. So if one wanted to engineer around those requirements, it became much more complicated. Features were added to features. It's like a Christmas tree. You start piling on and piling on. Pretty soon the whole thing falls over because it's too heavy. It's laden with little things. It just became more complicated.

As the EITF came into existence, we were all very hopeful that it would be the answer. In the years, literally, the front end there, one of the most effective vehicles the SEC had, was the use of the staff accounting bulletin as a way to get something out quickly, particularly if an emerging practice appeared to be inappropriate or abuse of the accounting model. Truth is, the SEC has tremendous authority, but it's always very judicious in utilizing it.

I always thought the staff accounting bulletin – I worked on one that had to do with repos and reverse repos. It came to light because certain S&Ls, and in those days something called Financial Corporation of America, FCA, was doing this repo/reverse repo, and practice was not consistent. In the space of literally a week, we put out a staff accounting

bulletin to provide clarity to the market.

The FASB, as good as they are, they really can't do something in a week. But if there's a market abuse, or something that people view as highly important, the ability of that to be written, approved by the Commission, and published is a very powerful tool. The reason I say the SEC is judicious, they're not trying to step on anyone's toes. At the same time, they have a responsibility to the investing public. If they feel that this could cause harm to investors, then they need to act quickly, and then maybe ask others to take it up on a longer-term basis.

KD: So this is one way the staff accounting bulletins, or one way in which the SEC can really give some input and say these are the things, here's our position, you need to integrate this at some point down the road.

RK: I mean, once it's published, it's effective. This is a really powerful tool. One of the things I always think about the SEC is they self-declare, "Look, we're a disclosure agency." They don't often dictate requirements, but they might say, I'll give an example, they're not going to tell companies that they must have a separate chairman and CEO. But they are going to put out a disclosure rule that says, "Describe whether you have a separate chairman and CEO. If you don't, why does that make sense in your particular circumstance?"

It's this form of regulation, it's like audit committees in the seventies. "You may not need

an audit committee, but if you don't have one, could you please explain or disclose why you don't?" It's all designed to change behavior, only because in the negative, you don't want to be the one to say, "We don't want an audit committee." I'm sure there's a term of art for it, but it's trying to change behavior by requiring disclosure.

KD: Interesting. Was that a surprise when you came into the SEC?

RK: It was very much a surprise. Because to me, at least in concept – I was a young man at the time – was the SEC is sort of the supreme authority. I think the most interesting discussions I've ever taken part in were all within the SEC in private where there was a debate involving all the senior people at the SEC. I'm taking the commissioners out of this for a minute, saying that the division directors, the general counsel, the chief accountant, the head of Corp Fin, debating on what authority the Commission really had under the statute. If they took something too far, whether someone in the public would challenge that authority, litigate it, in other words, and say, "SEC, we don't believe you had the authority to take that action to make this requirement."

Even today, as I think of various chairmen, various alums of the SEC, there are almost two camps as to how much authority the SEC really has. I've always been in the camp that it may be a political decision not to utilize it. But I think in terms of what the Congress has granted the SEC, they have tremendous authority, but they're very judicious about using it.

KD: "Privilege of the floor," that was the term you used before. Did you ever see that invoked?

RK: Absolutely, it's often been the case, and even today we have – I'll give you a current day example – coming out of Sarbanes-Oxley, the Public Company Accounting Oversight Board was formed to be a direct regulator of the auditing profession, the profession that audits public companies. They have a standing advisory group that meets several times a year. I served on it for a number of years in the early days. The SEC had an observer, the general accounting office has an observer, the chairman of the FASB has an observer.

There are a number of folks that are invited to the table. All the privilege of the floor means is that they have the right to speak. If the group has got a consensus going on some issue, and there's no votes, but it's an informative group, what the SEC says in those meetings, or what others might offer as a thought, tends to weigh a little more than something I might say, or my colleague sitting to my left or right, because of the power and position of the chief accountant. It can literally shape the outcome without having, by fiat or otherwise, having to sort of force it, just tends to impact how people think. It can be very effective.

KD: Other FASB issues at that point: were they still working on the conceptual framework? Were you involved in those discussions at all?

RK: I was less involved with the FASB discussions. I don't know if they were public or non-

public in those days, but there were regular meetings where members of the FASB, I think every quarter, would come and review their agenda and have a discussion about where they were headed. Under ASR 173, the SEC delegated its standard-setting authority and recognized the FASB as—they delegated the authority without abdicating the responsibility. They still had the oversight responsibility. They exercised that through quarterly touch-base meetings with members of the FASB.

Standard setting is not an easy business. One of the things that I observed is that over the years, as chief accountants changed, and as board chairs and board members changed, and as the economic environment changed, things kind of meander. They don't go in a straight line. The complexity of the system we've built over those years is pretty significant.

It's also pretty darn good. I know we're middle of talking about whether we should stay with FASB or go to IFRS. At the same time, almost every decision made and every standard promulgated was done for a reason, which may or may not have hooked into the so-called conceptual framework. The conceptual framework was under construction forever. Some would say if you had to start it all over again, you'd finish your conceptual framework, and then you'd set your standards.

KD: But it didn't work out that way?

RK: No, it's like trying to change a wheel on a moving car. It's a high degree of difficulty.

KD: You mentioned earlier, that you had actually started to work with John Shad himself.

Tell me how that came about and what the first issues were that you were involved with?

RK: There was a call for an oversight hearing by the Energy and Commerce Committee, which in those days, 1985 I believe, was chaired by Congressman John Dingell. Here we are in 2010 with Congressman John Dingell still in office, which is amazing. He had some very harsh views and wanted accountability, particularly from the audit profession, on the savings and loan matters, and certain very specific audits where there had been problems, post-issuance, of the financial statements. He called upon John Shad, as the chairman of the SEC to come and explain how oversight of the auditing profession is executed by the SEC.

This was not the first swing at the auditing profession, in the late seventies, with the Moss-Metcalf report, there were a lot of questions when Harold Williams was chairman. The AICPA formed the SEC Practice Section. The firms would join as firms, as opposed to CPAs joining as individual practitioners. That's where we got the structure, the peer review and all that. So that had been operating now for six or eight years, I guess, say closer to six. Now when there were problems in the marketplace, as the Committee saw it, I think they wanted to hear from the AICPA, hear from the SEC. The heavy lifting for me, and I was pretty young, was trying to first and foremost, educate Chairman Shad as to what the SEC does do vis-à-vis the profession.

I remember to this day working with the general counsel's office at the time, Dan Goelzer, Colleen Mahoney, people in the general counsel's office. As a team, we put together a great piece of testimony, which I used for ten years after that as a basic primer of how the auditing profession works. It really took it chapter-by-chapter and how things work, what are the governors, if you will, on compliance with professional standards and so forth. I remember it explicitly. Let's say it was a hundred pages. The chairman looked at it, read parts of it, I'm sure, certainly the front part, the executive summary, and declared to all of us – Linda Quinn was his chief of staff at the time – that he loved it, but it was too long. We had to cut it.

We put our heads together after the chairman was off to his next meeting. We agreed that it was perfect. So what we did was we re-numbered it. We put it in chapters A, B, C, D, and we numbered the pages A-1, A-2, B-1, B-2. He never figured it out. I think at the end he said, "Well, this is much better, obviously."

So the staff has its own work to do in support of the chairman. I do remember what I would call late nights, happens in this town all the time when there are congressional hearings. You practice your Q&A and put the chairman on the spot. See what his answer is, and if it isn't quite what makes sense, you help him remember maybe how to say it better.

John Shad in those hearings, he was a table-pounder a little bit, but in a really good way. He was a wonderful man. He said, "I'm going to tell Chairman Dingell that if any auditor

steps out of line, we're going to come down on them with hobnail boots." He loved that term. Actually, he figured out a way to use it at the hearing. He was so proud of himself, because he actually got it into the record.

That was probably, professionally and personally, one of the best experiences of my life, working with people the caliber of Linda Quinn, Colleen Mahoney, folks in the general counsel's office, Ed Coulson, Clarence Sampson. I mean, there weren't enough hours in a day. All of us worked way too much by some standards. But the time just flew by, and every morning you'd get up and you really believed – and I believe it to this day – it was the best job I ever had in a way. You're wearing the white hat and you're doing the right things. There's a lot of pride being a member of that staff. I still see it today, but all of my colleagues that I continue to work with in different capacities in law firms and accounting firms, those of us that had time at the SEC, I think, view that as a very special credential that we carry with us with a lot of pride.

KD: Were you still holding up the business combinations end while you were doing work?

RK: Of course, although, as with everything at the SEC, once you lap your first year, you become sort of senior. And new people come in, and so I grabbed one of the new guys, in this case a gentleman named Larry Salva, who came from Coopers & Lybrand in those days. Today Larry is chief accounting officer of Comcast Corporation in Philadelphia. Larry and I sort of tag-teamed business combinations, and he became the lead guy eventually. I remember having to split my time between, we called them registrant

matters, policy matters, and the congressional stuff.

KD: How much would you work with Corp Fin?

RK: The relationship with Corp Fin, if it's a good one, is one of the most effective sort of tag teams at the Commission, in the accounting world. There was a cadre of very senior people in what we used to call the front office, the office of the chief accountant in Corp Fin. The gentleman that we all remember very fondly, was the chief accountant when I first started, was a gentleman named Howard Hodges. Howard, he was the senior statesman in Corp Fin. He'd been there for a very long time, and was highly respected.

Frankly, what I remember was he was often the one who would be a little bit red-faced when Clarence Sampson in those registrant meetings would say, "I don't really like your accounting, but you've got substantial authoritative support, so I can't tell you to restate." Of course, Howard was looking for just the opposite answer. The body language was classic. I could just tell the smoke was coming out of his ears a little bit at the end of the meeting.

It was the disagreements. It was the debates that led to the best outcomes, because we did have different points of view. Just because you were in another office or division or you were more senior, nobody pulled any punches. If we felt it was wrong, even if you were a junior person, everyone was heard.

I call it the deliberative part of the SEC. In my two years, I went to as many closed Commission meetings as I could afford to when the enforcement cases were debated. In those venues, no cameras, no press, no congressmen looking over your shoulder, but just looking at those five men and women argue the issues and the policy questions, I've got to tell you, that is where my passion for policy and public policy really developed. That's what I do today for Deloitte.

The honest debates that would occur were stunning. When the SEC is at its best, that's when things really can get done. I'm not going to comment on where we are today, but over the years, I've seen it sort of meander. We had some very, very strong commissioners; John Shad, Aulana Peters, Jim Treadway. We have a very strong Commission. It did change over while I was there a couple of times, but not completely. People come and go.

KD: Unfortunately the Commission can't actually meet like that.

RK: They still meet in private, though. I haven't been in those rooms for twenty-five years. Those decisions are still made in private. It seems odd that nobody talks about that outside the room, so I don't know exactly how it is today. But I know what I saw and how much I valued it.

KD: Any other projects that you ended up working on during that time, or notable people that you worked with in the Commission in those years?

RK: My take-away, as I think back, the people that I have the most respect for, and actually that continues today, although some of them aren't with us anymore; Colleen Mahoney, Linda Quinn, John Huber, Elisse Walter, of course who's the commissioner today, and at the staff level, Dan Goelzer, Angela Hall, who is now Angela Goelzer, actually. They were just such high quality people, at the Commission level, developing good durable relationships with people like Jim Treadway, of course Chairman Shad, who's passed on now, and the people in the chief accountant's office.

It was a very rich experience for that two years. It allowed me to work with our clients today in a more effective way. I'm long removed from it, but I absolutely understand, and I'm not being pejorative here, the regulatory mindset; the job the regulator has to execute and be accountable for. Why they think the way they do, and why that might not always line up with the way corporate America is or others are. Bringing that to our clients today, I think has a lot of value. So not only do I treasure the time, but I feel like I came away with something that is just intrinsic to who I am, and it makes me better at what I do today.

KD: Why did you decide to move on? Could you have conceivably remained at the Commission?

RK: At the time, this whole congressional thing still had a tail on it. There was a question about whether I should stay. Programmatically, you would have to get a new job, the

way it works. There are a couple of instances where folks have maybe stayed on another six months or eight months. It was just too complicated, is the honest truth. Plus I had an offer to go back to, in those days, Deloitte Haskins & Sells, and become a partner. It appealed to me, back to New York, which was nice. So I took that.

Then the question comes, "Well, now that you're an alum, when are you coming back, and in what capacity?" A lot of the people who have filled the division director roles have had some earlier segment of their career where they've got SEC experience. They know what they're getting themselves into. From time to time, I've toyed with those ideas, but as they say, I've already got a full-time job.

But you'll see a lot of people – I mean, look at David Becker, he's a general counsel today, he was a general counsel in 2000 when Arthur Levitt was there. So people kind of come and go from time-to-time. Those that do it well do it because they really have a fondness for the agency and its mission.

KD: Well, you've stayed in regulation to some extent.

RK: I have, yes.

KD: So when you got back to Deloitte, you went to New York as a partner, I guess?

RK: Right.

KD: Did you find yourself looking through your regulator's glasses and having to say, "Now, wait a minute, let's do this differently"?

RK: To some degree. I went back in a capacity as a new partner for the better part of a year, heading up our accounting research group, which is where all the client questions got answered. I was a little jaded coming with that SEC regulator mentality now, just fresh right out of the most recent experience.

It wasn't long after that where I was reassigned to our downtown New York office where we serve Wall Street. I found myself literally mired in those very financial products that I was mentioning earlier. In those days, Merrill Lynch was a client, First Boston was a client, a lot of clients. Clients would call me saying, "I'm trying to design this security. It's got to do these nineteen things. We've got these features to it. Now, does that work from an accounting standpoint? Or what would the accounting be for this?"

I spent a couple of years trying to pick through the bones of these carcasses of financial products. In those days, there was a big push to get the accounting firms to give a letter to a Merrill Lynch, or to a First Boston, so they could take it and market the product, saying, "Oh, I've got a letter from Deloitte Haskins & Sells, saying this is the accounting." That became a big issue. Eventually there was a big crisis in the profession about opinion shopping. I can't really tell an Ernst & Young client how to do their accounting without talking to Ernst & Young. The rules changed after that.

During the time it was pretty wild and woolly until October of '87, when the market break happened. All that stuff just came to a screeching halt for a while. I ended up going into mergers and acquisitions, and advising clients who were buying companies. Certainly I knew the accounting well, but the tougher business issues were very interesting to me. Essentially, having come back in '86, by the time we got to 1992, I was working with a client quite a bit, helping them acquire companies. They offered me a position of CFO.

So I, for the second time in my career, left the firm. By then it was Deloitte & Touche, because Deloitte Haskins & Sells and Touche Ross merged in 1989. By '92, I decided I would change stripes once again and become a CFO, which I did for about three-and-a-half years.

KD: I would imagine at this point you would have been getting more involved in some of the AICPA committees and things like that, the SEC practice committee?

RK: Yes.

KD: Tell me a little bit about how those things worked, how they were structured, and how you undertook tasks.

RK: The structure of the profession in terms of what we were calling, since 1978, self-regulation, essentially had a regime whereby each firm would undergo a peer review

every three years. That became very institutionalized across the country, including at the state level. Many of the states passed the Uniform Accountancy Act, which required, for the state of – I don't know – Wisconsin or Illinois, that you needed to have this peer review.

There were eight large firms, but it was shrinking down to six, to five, to four. I became involved in the peer review process. We actually performed the peer review of Andersen. We performed the peer review of Price Waterhouse, and then eventually PricewaterhouseCoopers. I began serving on the ethics committee of the AICPA the professional executive ethics committee, got more involved with the peer review. Eventually, I became not only the member, but the chairman of the SEC Practice Section executive committee.

That was the body that oversaw the whole of that structure. We were the ones that would actually establish the requirements for membership. One of the requirements, if you were a member of a firm, is you have to go through peer review. We created the standard in those days for concurring review. In other words, before a partner can sign an opinion, another partner has to go all the way through the report and the financial statements and give you a second sign-off. Just within the last year, the PCAOB for the first time, had a professional standard for that. Its beginnings were back in the Practice Section.

The reason I took that too, is it has an SEC connection. The incoming chairman of the Practice Section was to be Bob Herdman. Bob Herdman took the job with Harvey Pitt to

be chief accountant. That left the AICPA a little bit short. I raised my hand and said, "I'll be the chair."

As it turned out, after Enron and WorldCom and Sarbanes-Oxley, I ended up being – I don't know if this is a good or bad thing – the last chair of the Practice Section. We had to cede all of that over to the newly-formed PCAOB in 2003. Others more important than I started it in 1978, but I turned the lights off in 2003, as the final chairman.

KD: When did you take that job on?

RK: Somewhere around 2000, 2001. I did it for a few years. One of the most untold stories, but one of the sadder experiences, at least it tugged at me a little bit, was what was happening to Andersen with their indictment by the Justice Department. The wheels were starting to come off and partners were leaving. Firms in the network were bolting and clients were changing. We had to go to Andersen and essentially work out a deal where they would voluntarily withdraw from the Practice Section. I mean, one, there's no reason to be in it anymore, but we didn't know where life was actually going. This was pre-Sarbanes-Oxley. We thought well, if a firm's been indicted criminally, how can we have them in our organization?

I remember flying to Chicago and working with the senior partners there. We just worked out a deal where they would quietly withdraw, and we wouldn't have to vote to remove them. Talk about a good firm and good people, and just professionally they're

your colleagues, and to have to go deal with that was not my happiest day, but it had to be done.

KD: Were they expecting you?

RK: Oh, yes, I think they were. I think yes, they were. They knew that something had to be done. I certainly gave them a head's up that we were struggling with that. At the time it was maybe the least of their worries, given all the business issues that they were facing.

KD: Now, this is a voluntary structure, right?

RK: Yes, it was a voluntary structure. You didn't have to be in it. You could audit a public company. What ended up happening is if you were a major firm, as a practical matter it would be very hard to opt out. If you were a smaller firm, a lot of people saw it as a badge of honor or a credential that you were qualified to audit public companies. That was never the intent of the organization. But a small firm might have a few public companies they put in their letterhead, "Member, AICPA, SEC Practice Section," to show that they're sort of – it was like a credential, even though it wasn't designed for that. It was voluntary. There was a staff. There were assessments, dues, if you will, to help fund the adequacy of that.

KD: Do you think it was adequately funded?

RK: Well, for what it was. I think the question ultimately became the efficacy of the peer review process, and the oversight of it through what was known as the Public Oversight Board. Again, very, very good people on the POB, and it just became a question of credibility. It was all solved with Sarbanes-Oxley, but there was no question once WorldCom broke that there was going to have to be a replacement system. Became a congressional reality, I guess I'll call it.

KD: Something we missed, you became a CFO for a little while. Tell me what it was like to be looking from the other side of the desk.

RK: What I tell my partners sometimes is okay: so I've been an auditor, I've been a client, I've been a regulator. I have you all surrounded, right? The CFO experience was particularly difficult for me because we were forming, for the first time, a corporate office to ride herd on several portfolio companies that the investors had purchased and put together. We sold bonds registered with the SEC during that time. Then I'm on the other side of the SEC trying to sell some paper, as they say.

I think the biggest challenge was it was kind of a fledgling operation. The businesses were very old line businesses. They were men's tailored clothing companies. They'd been in business seventy, eighty, a hundred years, well-established. They didn't have the infrastructure you would need to form pension plans across the span of companies, a financial reporting accounting function, a general counsel's office, the treasury, the kind of stuff you needed as basics.

KD: So you were setting up a parent company to take care of these?

RK: Parent company, exactly. I'm sure the thought at the time was maybe someday we'll do an IPO. Investors will get their returns. It didn't turn out that way. Right around those times in '93-'94—the product here was men's tailored clothing. You and I are wearing men's suits today, and that would be a pretty good business today. At first it was a nice pair of wool slacks and a sport coat, but then it turned out to be sweat pants and a golf shirt. The business just changed very, very much in a very rapid manner. We ended up at the end of the day going through Chapter 11, which was its own experience for me as CFO, because I had to get all the financing in place.

I like to think, and I actually believe this is true, that because I was very candid with vendors and banks and told everybody what was going on every step of the way, I was able to make my way through that situation with my reputation intact, certainly enough that Deloitte at the time actually asked me to entertain returning, which I thought was not even a possibility.

The profession is funny that way, if you're gone for a year or so, you might be able to come back. I was gone almost four years. This was in 1996 that I returned. There was no question, of all the smart choices I've made, coming back was the best thing that could have happened. I really missed the culture of the partnership, and being partners with a lot of people, frankly. But this was very different than a corporate environment.

KD: And you've already established you're not really on the audit side of the house, you're doing opinions and things like that. Can you describe that a little bit?

RK: On my return, I headed up our SEC group; people that help our clients negotiate through the SEC reviews. After that, I also took on the auditor independence department. I took on the head of professional practice. I became the chief risk officer of the firm, but eventually as deputy CEO of our corporate group, Deloitte LLP. I'm not really in the audit business or the tax business or the consulting business. But I sit at a level that spans all those businesses.

While I have my legacy and my history in audit, I'm also responsible for regulatory matters that could impact our tax practice or our consultants or anybody else. I've got a very different job today. But because of my relationships at the SEC and other places here in Washington, I've always retained the leadership of all of our regulatory efforts in order to have it be a cogent approach; at least I hope it is. Ever since my years at the SEC, I've just always gravitated toward that side of the business.

KD: The big thing we haven't talked about is the change in the profession over the years. You talked about what happened at Arthur Andersen. Some people put it in terms of the principles evolving into more and more rules, which is something that you've talked about. Can you give me some sense of your experience with those changes in the profession?

RK: You can almost separate it into eras on a timeline. If I look back, and I look at the forty-five years when the profession was, I think it's fair to say unregulated. In other words, each firm was left to its own conscience and policies and integrity, and then the SEC Practice Section coming for twenty-five, twenty-seven years as a self-regulated model, and then since 2003, the first time, a model of direct regulation. It's one of those where I wouldn't know, if I'd had another segment on, what it would look like and still have us be viable as a profession. We're directly regulated now by the PCAOB, inspected annually if you're a big firm. We're registered there, which registration in the worst case could be canceled or it could be pulled, if you will, and you wouldn't have the right to audit public companies.

In the years prior, we practiced before the SEC, but we were never really registered with them. We weren't really directly regulated. Our behavior was regulated. Enforcement could force a firm or a partner not to practice before the SEC, but all of that's very implicit now in the new regime.

I found a couple of things have been self-evident. One, it's different. It's much more, I'll use the word invasive, but it's more palpable. You certainly are aware of the direct regulation. The inspection regime is much more rigorous than the peer review ever was, partly because it's annual. When you're on a three-year cadence, it's one thing. To have it continuous, because an inspection takes a number of months, and while you're working on the report you're planning the next inspection, that's a very different dynamic.

I think it's served to really get our attention as firms. I speak for everyone in this, in that we have a constant list of things that we're working on to improve quality, to make changes. I liken it to our clients who now, under Sarbanes-Oxley, have to maintain their internal controls, constantly report on them as management, constantly have them audited. The list of repairs and maintenance items on internal controls, there may be ten, fifteen, twenty of them. As soon as that list is complete, new ones will arise. It's a constantly changing inventory of works in process.

I think that's just the continuous improvement nature of auditing, or maintaining controls. You're never finished. Because economies change, issues change, and clients change, there's always something that you're working on in terms of policy improvements, or new training, or new techniques and so forth.

KD: What about Sarbanes-Oxley, how did that change the way you did business?

RK: Well, first and foremost to what I just said, the introduction of the PCAOB as a direct regulator, that was the most visible and most noticeable. In addition, I think it forced our clients and, frankly, our auditors, to get what I call back to basics. Controls, internal controls in 1980 or so, after the Foreign Corrupt Practices Act, was right at the forefront of auditing. I remember spending hours on these control analyses.

What happened through the eighties and nineties is that companies, and even the auditors,

lost their way a little bit because there was merger mania. But the control mechanisms weren't always rationalized. The systems weren't always rationalized. Repairs and maintenance of effective control systems took a back seat to other things. Auditors found it was just as easy not to rely on the controls at all, but do a little more testing.

When that happened, there was a disconnect between the audit work and the controls. There was a disconnect between the financial statements and certain elements of control. It wasn't until Sarbanes-Oxley, when we all had to step up again, that we realized how much deferred maintenance was really in the system and how much our clients needed to spend to get them up to snuff.

We were living with that from 2004, 5, 6, 7. Now I feel like we're finally, in 2010, at a steady state, and one that has some discipline around it, so we shouldn't fall back down, is my point. I think that was one of the most effective impacts of Sarbanes-Oxley, whether the framers really realized it or not, it's a lasting impact. I think it's hugely positive.

KD: On the other hand, there is a sense that some of that had to be scaled back.

RK: There certainly was a feeling that we were being too granular. We were digging too deep. The stories about trying to audit the coffee money and the postage stamp started to rattle around the halls of Capitol Hill and other places. What ended up happening was actually a great example of collaboration. The PCAOB took another look at its standard. The SEC put out some guidance. The profession actually informed those two agencies as

to what we were seeing in our practice in the field; what was working and what wasn't.

Even though it doesn't get much play or recognition, I feel that the profession, being honest with the regulators, providing some soft suggestions on how they might frame some of this stuff, caused people to sort of relax a little bit. Not in a negative way, but to feel more confident that we could get what was needed and what was intended by Congress without digging every little dark corner.

KD: What were you finding? That's sort of what I'm trying to get at.

RK: I think what was happening, and others would definitely not agree with this. The PCAOB ended up writing what I would call the perfect standard in their Audit Standard No. 2, which was the governing document. It was perfect in the sense that it was comprehensive, it was undeniably logical. But it really didn't provide for a lot of judgment or prioritizing, what were really the important things. It had the right techniques to talk about material weaknesses, significant deficiencies, and just plain old garden variety deficiencies.

But the application of it was so literal. The fear was, of course, this was brand new regime. If the firms didn't do it perfectly, they would be criticized in their inspections. What happened was everybody took a breath and said, "Well, wait a minute. We're not out to kill corporate America with cost here. We certainly do want to find everything that's material." But we found better ways to prioritize our work, we found better ways to

make certain we didn't miss material, breaches of control. We found that some of the detail testing could be scaled back, could be moderated, could be done more selectively, even on a rotational basis. We didn't lose any integrity to what the objective was.

So that was a good thing. In 2005 and 6 we realized that something had to be done. So in 2007, 8, and 9, we settled into a place that's better. I've seen the cost from 2004, which was year one, probably only 30 percent of what they were in year one. It's moderated down to a level that feels right. Now that Congress just exempted permanently the companies that are \$75 million in market cap and below. My own view is that's unfortunate. Even though I certainly respect small business, those same companies take the public's money as well, and they may be the less, well-controlled companies.

There may be a little more risk there. But we're not going to know, because unless they voluntarily choose to have their controls audited, that will not be an SEC requirement ever, and been deferred for many years, but now it's just off the table.

KD: It's interesting, you were talking about the insight that you got and you carry with you from being in the SEC, but here's an example of where you were maybe a little surprised by the position the Commission took. Does that happen very often?

RK: Sometimes, I think the political realities are at play here. There's no question in the world right now, in 2010, everyone's concerned about smaller businesses, about economic recovery, about job creation. Yet the SEC is in that tough spot where they

have to be the investor's advocate. They have to protect investors. The greater public policy or the greater good theory is all fine, well and good. But they're going to be held accountable for regulating the capital markets and public companies.

I think they've been really good to not lose sight. In fact, even though they'll accept what Dodd-Frank has required, I don't believe that was something the SEC was pounding the table to get. I think others influenced Congress to take that step, and now the SEC is, as they always are, faced with implementing the law.

KD: The other thing the SEC is faced with is convergence, a sort of internationalization, I guess. That would seem to be an awfully big wave that's heading towards firms like yours. Tell me what you're doing, and how you're working with the SEC, and the rest of the profession to deal with that.

RK: It's a great question. In terms of what we're doing at Deloitte, or any other firms are needing to do, one of the realities that surprises a lot of people is that right here in the United States, a significant percentage of our auditors, even if the U.S. never moves to IFRS, we have to have our U.S. auditors trained and qualified in IFRS. Why? Because, let's say your assignment tomorrow is for the next two months, go audit the subsidiary of our UK client in Atlanta, or go to West Coast and audit the operations owned by the French company that's a client over in France. By the way, the financial package you have to report is all in IFRS.

They may be resident here, but roll the clock forward two, three more years. Canadian companies, Mexican companies, Japanese companies, all those companies that operate here in the U.S. and need audit work are going to be done under IFRS, because all their parent companies and parent countries have converted.

Even if we want to stay out of the fray and just say, "Leave us alone," it's not possible. The U.S. is brought into this by necessity. We didn't know ten years ago where this was going, however, it's pretty obvious that it's either the U.S. against the world, or the U.S.— in other words there's no way U.S. GAAP is going to become the standard at this point, given the reality of what's happened.

I think the most important thing, and I'm a great believer in the preeminence of the U.S. capital markets, and people can argue against that. I still think we are the most efficient markets. I think that our power to influence outcome on accounting and financial statement issues and so forth, will be diminished if we don't get a seat at the table in terms of setting the standards under IFRS. I think that's exactly what Mary Schapiro and the Commission are asking the staff to complete with this work plan in its five or six phases, to come to a determination next year about where we're going to go and how we might get there.

It's feeling to me, and it's just a feeling, that the SEC eventually will determine on some timeframe, IFRS will be incorporated into the system. I think that's a good thing. Others might disagree. I think our clients are worried this is another 404, but it couldn't be

further from the truth. Unlike 404, it has an annual piece to it; this conversion, if you will, is more or less a one-time. I'm a CFO of a big conglomerate located in Detroit. I've got countries all over the world now keeping their books on IFRS. I've got to now convert them back to U.S. GAAP in order to consolidate them. If we were all on IFRS, I could have common sets of controls, common sets chart of accounts, those kinds of things. The risk of mistakes in conversion, and flipping it back-and-forth go away in favor of a more uniform system.

I think there are a lot of advantages. I know there are people on both sides of this issue. I respect those other points of view, but it feels to me like the profession can do a lot to help the SEC with information to complete its work plan, so it can do a fair evaluation in front of the Commission. Some of us are doing our best to help in that regard.

KD: Is there a structure within what you're doing there?

RK: We certainly have in the last few years, we formed the Center for Audit Quality here in Washington, which is an adjunct organization to the AICPA, but it's separate. Its sole focus is public company auditing. It really doesn't have to do with tax preparers or private company audits or anything like that, or bookkeeping. It really is focused on the public company audit space.

We as firms spend a lot of time using that as our vehicle for collaboration on issues that involve the SEC and the PCAOB. It's been a very credible – it's been very successful in

my mind to make sure the firms – and we all have to volunteer some of our smartest resources. I probably spend 20-30 percent of my time with my colleagues in the other firms working together on issues that matter. You're always better off when you do that as opposed to going your own way.

KD: Is there anything else that we haven't talked about that we should get to?

RK: No, I think the conversation's been very sweeping in its scope and interesting for me to participate in. I'm delighted to have had that opportunity. The thing that I just can't let go of is I'm very proud to have spent a little part of my career working at the SEC.

KD: Terrific. Thanks.

RK: You're welcome.

[End of Interview]