

**Daniel L. Goelzer**

**With Lucy Harvey**

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**Baker McKenzie, Washington, DC**

Lucy Harvey: I'm Lucy Harvey with Dan Goelzer at Baker McKenzie in Washington, DC on October 15, 2019. I'm doing an interview on the beginning of the Public Company Accounting Oversight Board for the SEC Historical Society.

Lucy Harvey: Dan, thank you for joining me today.

Dan Goelzer: Good morning, Lucy. Thank you.

Lucy Harvey: Dan, tell us about your path to the PCAOB.

Dan Goelzer: Okay, well let me start with my career history leading up to the PCAOB, hopefully the short version. I got a degree in Accounting, at the University of Wisconsin, as my undergraduate studies. My father was an accountant, so I decided to follow in his footsteps. Although I knew I wanted to go to law school after I got my undergraduate degree, I worked for a little less than two years at what was then called Touche, Ross, Bailey & Smart, in Milwaukee, forerunner to today's Deloitte & Touche. Then I went back to law school at the University of Wisconsin.

Dan Goelzer: After I graduated, I was a law clerk for a federal judge on the Seventh Circuit Court of Appeals, in Chicago, and then decided to give the SEC in Washington a try. I had, I think, pretty firm views at the time, that I would just stay in Washington for a couple of years, and then go back to the Midwest, but, at least so far, I haven't actually made it back. So I started at the SEC in the fall of 1974, and eventually became the Commission's General Counsel in 1983. I was the General Counsel of the SEC from 1983 to 1990, and then came to Baker McKenzie, then called Baker & McKenzie, where we are talking today. I stayed until I joined the Board in 2002.

Dan Goelzer: When I started on the SEC staff, a fellow named Harvey Pitt was the Executive Assistant to the Chairman, and then shortly thereafter became General Counsel. I worked closely with Harvey until he left the SEC in the early '80s. Harvey, of course, was the SEC Chairman when Sarbanes-Oxley was passed. In any event, working with him in the mid-70s turned out to be significant to my being appointed to the PCAOB, I think.

Dan Goelzer: In terms of the specific way that I got to the PCAOB: The Sarbanes-Oxley Act was passed in late July of 2002. It was certainly a big event in the securities and corporate law world, and I remember at that time, here at the firm, I was spending a lot of time going around presenting seminars for clients about what Sarbanes-Oxley was and what it would mean for public companies. I certainly didn't have any thought that it would have any impact on me, beyond the impact as a practicing lawyer, as a securities lawyer.

Dan Goelzer: But I did get a call at some point in September of 2002 from Bob Herdman, who was then the Chief Accountant of the SEC, asking if I would be interested in being considered for service on the first Board. It was a bit of a surprise to me. I'd already been contacted at that point by one of the former Chairmen of Baker McKenzie, who thought that he might like to serve on the PCAOB, and was wondering if I had any advice as to how he might get his name into consideration. But, in any event, shortly after that, I met with Harvey, and I think also with Alan Beller, and ultimately with each of the Commissioners. At some point in late October, I got the word that I would be one of the "nominees", I would say, since the Commission did have to vote on us.

Lucy Harvey: Now, you were selected as one of the accountants, and yet your accounting experience was a little bit thin. Do you think that was in an effort to avoid using the Big Four, or the profession?

Dan Goelzer: I do think that was part of it. I think, Harvey has never said this to me, but I think there was an aspect that Harvey was looking for people that were known quantities to him, people he'd worked with in the past. That certainly wouldn't apply to everybody who was nominated, but I, at least, fell in that category.

Dan Goelzer: Harvey actually played an important role in my being a CPA. I had passed the CPA exam shortly after I graduated with my accounting degree. I don't think there was any other time in my life when I could have passed that exam, except right after I got out of school. However, at that time, Wisconsin also required three years of accounting experience before you could actually get the CPA certificate. My time at Touche, Ross, Bailey & Smart counted, but it didn't add up to three years. At some point, when I was working for Harvey in the General Counsel's office, he wrote a letter about my work. I may have actually drafted the letter, but Harvey added to it and signed the letter, which was sent to the Wisconsin CPA Examining Board. It basically said that everything I was doing at the SEC was squarely in the field of experience as an accountant, which was, at best, a bit of an exaggeration. But in any event, they accepted that letter and awarded me my CPA certificate. So, I had Harvey to thank for my being a CPA and he certainly remembered that when he started thinking about potential CPAs for the Board.

Lucy Harvey: There was-

Dan Goelzer: But just to answer your question, I think, too that he felt that for what I would call political reasons, it wouldn't be desirable to have someone from a large

accounting firm, or even someone who'd spent an extensive time in practice at a public company. As we will probably get to as the conversation goes on, there was a lot of concern in those early days about whether the Board was going to be sort of a captive of the profession. People were very suspicious, if not cynical, about us. I think Harvey already appreciated that it just wouldn't have been feasible to appoint people straight out of the profession. But he did have to have two CPAs.

Lucy Harvey: Right. There was a rocky start before the PCAB even opened its doors. Tell us about the nomination of the first Chairman.

Dan Goelzer: Yes. There was a rocky start. I always used to balk when people said that, because it wasn't that we, as the Board, did anything that caused a rocky start, but the process by which the Board members were selected at the Commission, and the relationship between the Commissioners as to who should be on the Board, was very confused, to use a polite word. There's a GAO report on the subject, if anybody listening to this interview wants to go back and read about all the gory details. But the Commission was up against a time deadline. I think they had to appoint the Board members within 90 days of the time Sarbanes-Oxley was enacted, so they didn't really have the luxury to put an ideal process in place.

Dan Goelzer: Apparently a lot of people were considered. Some were interviewed by various people on the staff and Commission. The real argument was about who would be selected as the Chairman. There was a man named John Biggs, who was supported by a number of the Commissioners. Harvey eventually decided on William Webster, a very prestigious lawyer here in Washington who'd been a former director of the FBI. But-

Lucy Harvey: And the CIA.

Dan Goelzer: Certainly of the FBI, was Bill also at the CIA?

Lucy Harvey: Yes.

Dan Goelzer: Oh, okay. It came to light, perhaps known to Bob Herdman, but not to others, that Bill was on the Board of a company, on the audit committee, chair of the audit committee, of a company that was under SEC investigation with respect to some sort of a financial reporting problem. That apparently wasn't known to the Commissioners at the time of the vote. To make a long story short, eventually, I believe on November 12, which would have been about three weeks after we were all appointed, Bill Webster had to resign from the PCAOB.

Dan Goelzer: Around the same time, Harvey resigned as SEC Chair, and Bob Herdman resigned as Chief Accountant. So the whole process was a mess, I guess you would say. I do remember that on the day that the Commission voted, I had a call from Harvey Goldschmid, who was one of the Commissioners at that time,

and who I knew somewhat. He said, "I just want to tell you, I'm going to vote against all the nominees, but don't take it personally, it's because of the process that was used." Harvey Goldschmid did indeed vote against me and everyone else who was on that initial Board.

Lucy Harvey: What was the political atmosphere like before the doors opened at the PCAOB?

Dan Goelzer: Well, a couple things. Of course, Sarbanes-Oxley itself, the law creating the PCAOB, was passed in the midst of what I think many people considered a crisis in public company financial reporting. Enron had collapsed, and then WorldCom after that. In fact, the vote on Sarbanes-Oxley, if I remember correctly, was shortly after the WorldCom collapse. Demonstrating the crisis atmosphere that Congress thought they faced, the legislation passed unanimously in the Senate, and I believe with only one negative vote, Ron Paul's, in the House. Even back then it was kind of extraordinary for any legislation to pass with that kind of broad support.

Dan Goelzer: I think part of the atmosphere was this: There's a crisis in financial reporting, this body has been created to help solve that, or restore confidence in public company financial reporting, and so we're expecting a lot from them. Also, at the same time, because of the appointment process and some other statements that Harvey Pitt had made about the accounting profession that had been widely quoted, and other things that had happened between the SEC and the profession, I think there was a lot of cynicism, or suspicion, about how the new Board would do -- whether we would turn out to be captives of the profession, or lap dogs and essentially that we would fail. Or at least we would fail to accomplish the mission that Sarbanes-Oxley had set out for us. I think that had an important influence on us as well and affected a lot of the early decisions.

Dan Goelzer: We wanted to make clear that we weren't going to be captives of the profession, and that we understood our responsibilities to the public interest. Let me just say a couple things, demonstrating that. After we were all first appointed, we started having organizational meetings to talk about the things we had to do-- what had to be done when and who was going to do what. We had those initial meetings here at Baker McKenzie, and I remember coming into the office one morning, and there were actually television cameras down in the lobby, around the elevators to capture the Board members, I suppose particularly Bill Webster, as we came in for the meeting. That just seemed extraordinary to me.

Dan Goelzer: This would be a little further ahead in time, but after we were formally organized and holding our own meetings, for one of those early meetings, C-SPAN cameras were there. They didn't broadcast it live. In fact, I think the tape ended up being shown at like, 2 AM or something, on a Sunday morning. But still, the idea that C-SPAN would cover a PCAOB meeting seemed extraordinary at the time. At the same time, one of the Nader affiliated groups formed a shadow PCAOB and I guess the idea was, whatever decisions we made, they would debate the same issue, and ...

Lucy Harvey: Oh, wow.

Dan Goelzer: ... essentially say how the decision should have been made. My recollection is, they collapsed pretty fast. But it certainly got our attention that there was going to be a shadow body, second-guessing our decisions.

Lucy Harvey: You are a consummate organizer, Dan, and you talked a little bit about those meetings that I believe you called, before the PCAOB had even opened its doors, and I wanted to talk a little bit about the jobs that you, the Board members decided, and the kind of tasks that you took on yourself.

Dan Goelzer: Yes, well one of the regrets I have about those days is that I didn't keep a diary or something because I'm sure there are a lot of details that I've forgotten. And whether the agendas of those meetings survive anywhere or not, I don't know. If they do, I hope you have them. But certainly one thing I remember from those days is that Bill Gradison and I took on the responsibility of looking for office space for the PCAOB. Since we weren't part of government, we couldn't look to GSA or anybody else to do that for us. We had to be our own location selection committee. We retained a commercial real estate agent and went around and looked at buildings and empty office space here in Washington.

Dan Goelzer: Of course, we eventually settled on 1666 K Street, which had recently been vacated by Arthur Andersen. That seemed highly fitting, since Anderson's collapse was one of the events that precipitated the enactment of Sarbanes-Oxley. I don't exactly remember why, but Kayla Gillan took on the responsibility of designing a logo for the new PCAOB. We all had various jobs.

Dan Goelzer: One of the first things we talked about was where we should be located. We considered New York or Connecticut, as possible locations. But, since at least three of us were already living in Washington, we decided it would be better, or more convenient for us, to stick with Washington. I think, in later years, we sometimes thought there might have been something to be said for the idea of not being quite so close to the SEC. We might have been a little bit more below their radar screen than we turned out to be.

Lucy Harvey: So, now we're shuttling ahead to the PCAOB opening its doors, which was officially Monday, January 6th, 2003.

Dan Goelzer: Yes.

Lucy Harvey: So, I wanted you to give us a sense of what that first day, or that first week was like.

Dan Goelzer: Well, first, there were very few of us there. Again, you've probably done enough research to know the exact number. I don't remember. I know I was there, and it would have been a half dozen people at the most. I think the office space turned out to be a good selection. But initially it was a little peculiar. As part of

Andersen's departure, if they'd had the cubicles, or whatever, largely removed, so what it really consisted of was a few offices around the perimeter, a conference room sort of in the middle, and other than that, just wide open spaces -- office space that had been stripped down to the foundation.

Dan Goelzer: As a Board member, at least I had an office. I don't think we had telephones at the very beginning. We eventually had telephones, but we had to answer them ourselves for a while, because we didn't have much in the way of support staff; there was no receptionist. I don't know what people thought when they came up and got off the elevator and just saw this sort of cavernous area, but that's what it was.

Lucy Harvey: There is a story about a lack of chairs, and that when you went to a meeting, you had to bring your own chair with you, and you had to do that to sit in it, and you also had to do that, because someone else might steal it, if you were gone.

Dan Goelzer: Well, yes, I do remember that, having to bring chairs. I can't remember why or how I had a desk on the first day I was there. I think my old Baker McKenzie desk had been shipped over the weekend before. But anything we wanted, we had to buy, and I guess eventually we were able to get chairs. But they were in short supply initially. Most of what happened, happened in that conference room, because we would meet there and plot what was going to happen next and what we had to do.

Lucy Harvey: And that was a very small group, but that's where you got the bulk of work done, right? In that conference room?

Dan Goelzer: Yes, that's right. Of course, as time passed we had more people. I know Kayla and I were on a design committee and worked with decorators to have the space built out, so it was like conventional office space, though that happened later. But I think initially we were able to get at least cubicles in there, so that the early staff had a place to sit and work. It changed fairly rapidly, but at the very beginning it was pretty barren.

Lucy Harvey: I have heard funny stories saying, when they came to work in the early days, they were so thrilled with how they were received. People were so kind. But in fact, the person was so glad to see another body, and give over their function. Like, "You're here to do this now--"

Dan Goelzer: Yes, I think that's probably right, yeah.

Lucy Harvey: ... that there was this wonderful welcoming, and really it was because there was someone else to take on the work.

Dan Goelzer: Yes, I think that's exactly right.

Lucy Harvey: What type of people were you looking to hire? Was there a palpable sense of esprit de corps, or mission, when you were making those early hires?

Dan Goelzer: Well, yes. I think there certainly was a sense of mission coming out of this issue that I spoke of already -- about being viewed cynically, or suspiciously, by the outside world -- and it was important to us that we hire people that would be committed to making the PCAOB a success. We also had concerns about not hiring, or at least for senior positions, people out of large accounting firms, because of this concern about capture by the regulated industry, so that was a factor.

Dan Goelzer: Maybe something else I should say at this point is that, when we had those early meetings here at Baker McKenzie, one of the decisions we made was that we needed to conduct inspections of the Big Four, in some form, in our first year of operation. I think we appreciated that we might not be able to put a full scale inspection program in place that quickly. But to have some type of initial or provisional, or startup inspections in the first year for the large firms was very important. So one of our first jobs was to think about a director of inspections, again, facing the constraint that we didn't think we could take someone from one of the large firms, or for that matter, directly from any firm that would be under our regulatory jurisdiction.

Dan Goelzer: But anyway, we were looking for people that would be committed to the mission. In the first year or so, maybe even a little beyond that, it wasn't always easy to recruit, because people weren't sure if working at the PCAOB would be a negative or a positive on their resume. They wondered, "Would this organization survive?"

Dan Goelzer: That reminds me of something about the office space. The real estate agent told us that the building owners, who I think were basically a bunch of dentists in Florida, thought they had a great tenant in Arthur Andersen. Then suddenly Andersen disappears, and the real estate folks approach them with, "Well, now this new PCAOB wants to become a tenant." They were very leery about it. They asked, "Is this group going to be able to pay its rent, is it going to last?"

Lucy Harvey: Oh, wow.

Dan Goelzer: Fortunately, they did take us. My point being that uncertainty about the future of the Board also certainly spilled over onto people that we were trying to recruit, people who had jobs and families and weren't sure whether they should throw their lot in with the new PCAOB.

Lucy Harvey: I understand that in the very early days, you couldn't even tell anyone what their salary would be? What their benefits would be? But you still had people who said, "Yes, I'm interested."

Dan Goelzer: Well, yes. That's right. Since we weren't part of the government personnel system, where all those things are defined -- even if you're a new part of the federal government -- we had to make decisions about all those things ourselves. We were fortunate, I think, that one of our first hires was a man named Paul Schneider, who essentially served as our Chief Administrative Officer. I don't remember what title we actually gave him at that point, but while the rest of us were thinking about auditing and inspections and the securities laws and stuff like that, Paul really did a lot to fill in the details on the administrative functions, or to recruit the kinds of people that could fill in the details on HR, IT and a whole range of other things.

Lucy Harvey: Can you tell me about the day that a million dollars arrived from the Treasury, and you said that was a very good day because that was just a loan to get you guys started, but you were using personal credit cards to get things, purchase things, send things in the mail.

Dan Goelzer: Yes, that's right. I don't think I ever used my credit card for anything, so I didn't exactly have a personal financial stake in that, except for my salary. But I do remember when the Treasury loans started coming in. That was very important to us because, as you said, we needed chairs, we needed everything, and so we needed money.

Lucy Harvey: SEC Determination Day, which was scheduled to be before April 25th, no, before April 26th, 2003. That was in Sarbanes-Oxley, and that really started a lot of clocks ticking.

Dan Goelzer: Yes.

Lucy Harvey: So, the SEC had to make the determination that you could perform, basically, and so, tell us was there some concern that the SEC wouldn't actually make that ruling?

Dan Goelzer: I can't say that I remember 'concern' that they wouldn't make the ruling, which would have been a black eye for us, a black eye for them, and just in general, a crisis. But I do remember that there were just a tremendous number of pieces that had to be put in place in order for them to make that determination. A structure of rules, and what the divisions would be like, and what the responsibilities would be. People were working really, almost around the clock, to create the paperwork framework that would give the SEC the basis to make that decision. So, it certainly was a major milestone, when they did make the determination. We were able to have our official start -- our official launch.

Lucy Harvey: There is kind of a cool picture, and we determined that it wasn't done at the SEC, it was done in the conference room, but it was of all the people that were at the PCAOB, and you had a little celebration to recognize that milestone of Determination Day. It was a little bit later, but can you talk a little bit about that?

Dan Goelzer: Well, yes. I remember that picture being taken, and it certainly was in that conference room at the PCAOB. I have that picture in my home office. I just looked at it yesterday in preparation for our conversation. I believe we also gave everybody who was on the staff then a clock. I also have my clock in my home office. It has a little plaque with my name on it, so I guess everybody must have gotten a personalized clock, and it also says something about SEC determination, April 25th, 2003. So, yes, we had a little party ... I don't remember what, but wine and cheese, or something.

Lucy Harvey: Right.

Dan Goelzer: To celebrate, and then back to work, again.

Lucy Harvey: Yes.

Dan Goelzer: Because as you say, it did start other clocks, or other clocks were running, that set deadlines for us.

Lucy Harvey: So, now the challenge was to create all of the individual divisions, and you had a very strategic order that you went with. Let's talk registration, because the clock started ticking with the determination day, on registration.

Dan Goelzer: Correct.

Lucy Harvey: I want to hear about the sense of urgency, and why you took on the technological challenge of creating your own registration system?

Dan Goelzer: Well, that was a big issue, and a big challenge, in the early days, and while I don't remember feeling uncertain about whether the SEC would give us our approval, I remember a lot of uncertainty about whether we would get the registration system up and running by its deadline, which I've forgotten.

Lucy Harvey: It was 180 days after SEC determination.

Dan Goelzer: Oh, okay. But the challenge was, we felt that we had to have an internet based registration system -- that it couldn't be just something that was done by people sending in pieces of paper. But, again, like the chairs, we had no IT. I guess we had personal computers in our offices, but that was it. So the whole process of creating an IT infrastructure, and then creating a program, a software structure, a registration system, for a unique, or a one-off function, just seemed very formidable.

Dan Goelzer: The thought came up that maybe we could use somebody else's. FINRA, for example, specifically has a system for broker dealer registrations, and we gave serious thought to letting FINRA run our system and essentially run it on their facilities. We met with them, and I think they would have been more than willing to do that, but we eventually decided that, despite the risks, we wanted

to be in control of our system, and in control of the data, so we would need to build our own.

Dan Goelzer: I think it reflects the fact that one of the things we had in mind in those early days was that we would have a lot of data from registration, from inspections, perhaps from enforcement investigations. I don't think the phrase 'big data' had been coined at that time. But we thought there would be ways we could bring all that data together, and gain insights about how problems occurred in auditing, how the standards ought to change, and other things that would support our mission. I don't think the first Board was able to fully realize that vision. I'm not sure it's been fully realized today. But it was something that drove us towards wanting to have full control over our data and our registration system. So we decided to build our own. Fortunately, it worked.

Lucy Harvey: Right. There was a huge outreach effort to tell people to register, and then there were all these deadlines, because you had to make a decision on each registration application, and so people had to realize that there was 45 days for you to make that decision, so it really wasn't the end date, it was 45 days earlier.

Dan Goelzer: Yes.

Lucy Harvey: So you Board members did a lot of outreach on that, didn't you?

Dan Goelzer: Yes, in speeches, in everything we could, we tried to inform the profession that an important deadline was coming, and how to access the system and to be ready for that. Fortunately, there wasn't really a lot of issue around approving registrations, once applications were submitted, because we didn't have to make judgements about whether the firm was qualified or competent, or how good of a job they were doing in auditing. That kind of evaluation comes later, out of the inspection program.

Dan Goelzer: As long as they provided the required information, and complied with the mechanics of the registration process, then their registration was approved, and they were in the system. But, yes, it was certainly one of the big milestones at the beginning.

Lucy Harvey: Let's move to inspections, and again, when you were building that inspections program, what type of people were you looking for?

Dan Goelzer: Well, as I said, we knew from the beginning, that we wanted to have inspections in the first year. We obviously needed to have a head of inspections, but we didn't want someone from one of the large firms. My recollection is that there were people, I can think of one person specifically, at large firms that were very interested in the position, and undoubtedly would have done a great job. But somehow we hit on George Diacont, who had long experience at the SEC and

then at FINRA. He was an accountant, and he turned out to be the ideal person for the position, and so we hired George.

Dan Goelzer: The philosophy was a little different in terms of the working level inspectors, the people below George. There, we felt it was critical that people have a significant amount of recent public company auditing experience. We knew that they would be having to go toe to toe with senior partners at large firms and might well be challenging what those people had done. We thought that the inspectors would have to have a background where they'd been there and done that, themselves. People did come to us out of the large firms and out of smaller firms. I think we were also very fortunate that we attracted a fair number of people who had retired from the large accounting firms. Certainly we were able to hire a number of people who had been partners and senior auditors, but either were looking to do something different or had faced mandatory retirement from their firms.

Dan Goelzer: I often felt that I interviewed a lot of people who thought it was great to retire at a young age, and enjoyed playing golf for about 18 months, but then said to themselves, "Hey, I need something to do, again." The PCAOB was an obvious choice for those folks, and we were very fortunate to be able to attract them.

Lucy Harvey: On August 26, 2004, the Board released its first limited inspection reports, and what was the Board concerned about in that first release?

Dan Goelzer: Well, I think we were concerned and uncertain about how the public and companies would react to them, because we did identify deficiencies, problems, in all the firms' auditing. We worried whether this would provoke a new crisis, a new lack of confidence. Would audit committees think they should change their auditors or something? We just weren't really sure. I haven't gone back to actually look at the press statements that were made at that time, but I think we made an effort to make clear that we couldn't really make an overall judgment about the firm from what we'd found in the initial inspections, that we'd only looked at a small number of audits, and that sort of thing. But still, those first reports were a major milestone, and I think it's something that helped to reverse this idea that we were just going to be captives of the profession and say that everything was great, and not really have much of an effect.

Lucy Harvey: There was also another milestone -- the first time that one of the Big Four failed to address quality control concerns in their Part 2, was released, and that was a little bit later.

Dan Goelzer: Yes, that was later. I think that was in 2011.

Lucy Harvey: Yes.

Dan Goelzer: We were concerned about that, and I think the firm was concerned as well. I understand the firm did a lot of preparatory work with the audit committees of its public company clients, explaining to them that this was coming and that the firm was going to work hard to address the problems. Again, I think the release of that Part 2 went a long way towards showing that we were prepared to be tough on the profession, and call things as we saw them. It didn't end up having a disruptive affect in the sense of the firm losing clients, or anything of that nature.

Dan Goelzer: It was a little bit of an uneasy situation because the Part 2 release occurred after the Commission had appointed new Board members earlier in 2011, and several people on the Board were recused so there were only two or three of us that made that decision to release a large firm Part 2. But, I think it ended up having a positive effect on that firm, and on the profession, generally. If we look back today, all the large firms have had a portion of a Part 2 of an inspection report made public, so it wasn't by any means an isolated, or a one-off event. It's part of what Congress contemplated when they set up the system in the Sarbanes-Oxley Act.

Lucy Harvey: Let's move to standards. SOX had given you the choice as to whether you were going to set auditing standards, or rely on the profession to do that, and so, why did the Board elect to set their own standards?

Dan Goelzer: I don't think it was ever really a serious, or a close, issue for us. We felt that we had to do the standard setting ourselves, or again, risk the perception that we were being captured by, or ceding our authority to, the profession that we had been assigned to regulate. So, yes, we decided to set the standards ourselves. I think we were very sensitive to the fact that, as Board members, we didn't have the kind of personal experience or technical knowledge that you would expect in folks setting auditing standards, so we needed to have an experienced staff that could provide that expertise.

Dan Goelzer: We were fortunate to have Doug Carmichael as our first Chief Auditor, which was the title we gave to the head of standard setting. I'm not sure that was really the perfect title, because it sounds like the Chief Auditor performs some type of audit, but of course that wasn't his function. But Doug assembled a great team around him. I think during all the years I was there, there was discussion about whether there were ways we could get the profession more involved in standard setting, perhaps by delegating particular projects to professional groups, or asking working groups comprised from the profession to do drafting projects for us. But we never did that, again, because of concern about seeming to cede our authority to the profession.

Dan Goelzer: The trade-off for doing it ourselves was that the standards setting proceeded at a somewhat deliberate pace. We weren't able to accomplish all the standard setting that I think we envisioned in the early days. Certainly one of the things we talked about -- again, going back to the early meetings here at Baker McKenzie -- is that, while we couldn't write a new set of auditing standards in 90

days, or 180 days, so we'd have to adopt the existing standards, but then we would quite rapidly have projects were we would review all of those standards, and modify them, or adopt replacement standards of our own. That really just turned out not to be feasible from a workload standpoint. I mean, obviously, the Board has adopted a significant number of standards over time and replaced many of the standards that were in existence in 2003. But we never really had the kind of comprehensive review and rewrite of the standards that we envisioned back in those early days.

Lucy Harvey: There was a lot of optimism, wasn't there, that the standard setting would go rather rapidly.

Dan Goelzer: Well, yes, I think that's right. I've said how there was cynicism and suspicion about the Board, and we were very uneasy about some of those things, but we did have a lot of optimism and enthusiasm about our work. Maybe in some ways we overestimated what we would be able to accomplish, or at least what we'd be able to accomplish in a short period of time. But I think that's the attitude you want to begin a new project with.

Lucy Harvey: Absolutely. Let's talk about SAG. Why did you guys decide to create a Standing Advisory Group. Ultimately was it helpful, or was it herding cats? Was it a lot of presenting a myriad of differing opinions, or was it good counsel that they provided?

Dan Goelzer: The Act says that the Board 'should create such advisory committees as it thinks appropriate,' or something like that. We thought we had a pretty strong direction from the statute to create an advisory committee. I think it was also something that came out of the decision to do our own standard setting. We knew we would need outside advice and input, and the SAG would be one way of getting input on standard setting projects, such as what projects should be undertaken, and reaction to proposals. There was also a significant strand of thinking that we wanted to create a group of people that felt they had a stake in the success of the PCAOB.

Dan Goelzer: The SAG has people from accounting firms, investor representatives, issuer representatives, academics, and some other regulators. Again, at the beginning, there were questions about, "Is this organization going to last? Is it going to be a success?" We thought we needed to build up a constituency that was sort of inside the tent -- felt that they had an interest in our success -- and could communicate to other people, "Well, I meet with the PCAOB several times a year, and here's what their thinking is."

Dan Goelzer: There was also, along those lines, a little bit of an idea to take people that were potential critics, and put them on the SAG, so that they would feel that they were insiders and had a voice. So, people like Lynn Turner, Damon Silvers, Barbara Roper -- I don't think they would take offense at my saying that -- but they were people that we thought perhaps viewed us with some unease, or suspicion, and we wanted them to have an open line of communication with the

Board, and feel that they could have some confidence in the work that we were doing. I think all those things went into forming the SAG.

Dan Goelzer: You asked, "Did it work?" Yes, I think we had some great discussions with the SAG, and it was a good opportunity to air views and get reactions from a variety of people to issues that were important to us. The SAG was never really set up to reach decisions. The SAG didn't vote, it didn't have its own positions on things. The Chair of the SAG was the Board's Chief Auditor. I think we were a little sensitive to the risk that we didn't want this to be a group that we lost control of. We wanted to hear what they thought and to take their views into account, but we don't want them coming up with their own agenda for the PCAOB.

Dan Goelzer: I always felt, particularly in the early days, that there was a little reluctance on the part of the firm representatives to be too vocal at public SAG meetings, because the profession continued to be under a bit of a cloud from the events that had given rise to Sarbanes-Oxley. So I think there was a dynamic where particularly the investor and public interest representatives were a lot more vocal at SAG meetings than the firm representatives were. But all in all, I think it worked very well, and I think it was a good decision.

Lucy Harvey: Let's move to enforcement, and it was the last of the big divisions to be started and staffed. I heard a funny story that, early on, there was a group of people who worked very hard at naming the divisions, and they were saying, "Well, registration and inspections, you only register once, you get inspected several times, so registration will be singular and inspection will be plural." So, when they got to enforcement, they thought, "Well, actually, the investigations come first, and then comes enforcement." But then it would have been D-I-E, or die, and they thought, "We're not going to go there," so they named it a little bit differently. But anyways ... tell me about enforcement.

Dan Goelzer: Well, as part of our conversations leading up to this interview, you pointed out that it was the last division formed. I don't think that would have occurred to me, or that I had focused on that until you said it. I do remember that we hired Chris Cutler as the first enforcement employee. I believe he came from SEC Enforcement. So, at some stage in the set-up process we got Chris, and then eventually, Claudius Modesti, and the rest of the staff. I would say that I think there's a logic to the timing. Enforcement is designed to enforce the rules – to, in essence, give teeth to our regulatory responsibilities. Until the rules and regulatory processes are in place, enforcement isn't as critical. Its work hasn't started yet.

Dan Goelzer: For audit failures, audit breakdowns, of course, the Board has concurrent jurisdiction with the SEC, so it wasn't like there was nobody to pursue audit failures until our enforcement division was up and running. But that said, going back to the early meetings. I know we felt from the beginning that it was important to have an effective and credible enforcement program. So many of us had an SEC background. I have always felt that a lot of the SEC's credibility

comes from the fact that it has a nationally, world renowned, enforcement function that backs up its rules. You've got to follow the rules or you'll be dealing with the enforcement division. We certainly wanted to have the same model for the PCAOB.

Lucy Harvey: Describe the non-public nature of enforcement proceedings.

Dan Goelzer: Yes, that was a problem, and you may be able to talk to others who will give you more background as to exactly how that got into the statute. It was not a PCAOB decision. The Sarbanes-Oxley Act provides that PCAOB enforcement proceedings are non-public, essentially until the end, until there's been a settled order, or a final appeal, through the SEC appeal stage of the enforcement case. I think that was something that was important to the profession. The profession didn't have a lot of leverage at the time that Sarbanes-Oxley was going through Congress. And of course, there were a lot of provisions of SOX that didn't actually have hearings on them, so it's hard to know what the various constituencies thought. But, my understanding is that this is something that the profession badly wanted and managed to get in the Act, so the PCAOB had to live with it.

Dan Goelzer: Beginning, in 2010, we started urging Congress to change Sarbanes-Oxley, and make our enforcement proceedings public. That still hasn't happened, but I think it should happen, I think it's very important. There are a couple of problems with non-public enforcement proceedings. Certainly, one is, it creates an incentive to litigate with the Board, because you can keep the charges against you non-public, keep the public unaware of the charges, for as long as you can keep the case going. That means that you can -- particularly thinking of smaller firms who are exposed to a risk of being put out of business by the enforcement proceeding -- keep auditing and keep earning those audit fees, even though the PCAOB believes that it has a basis to exclude you from the business. The dynamic probably being that, if the proceedings were public, you would have just settled, rather than litigated the case.

Dan Goelzer: I think it also deprives the public of important information about what's going on in the PCAOB's enforcement program. The public doesn't see until long after the fact the conduct that the Board thought justified bringing an enforcement action.

Dan Goelzer: The SEC went through the same thing, because its disciplinary proceedings against accountants and lawyers were non-public by rule, for many years. Actually, during the time that I was SEC General Counsel, we changed that. We could do it without having to go to Congress. We could just do it by changing the SEC's rules. But, largely for the same kinds of reasons that I've just mentioned that it's a problem at the PCAOB, the Commission concluded that its enforcement actions against accountants and lawyers, just like its enforcement actions against brokers, or any other kind of defendant, should be public from the time that the Commission files the charges. So, I hope we'll get there for the PCAOB as well.

Lucy Harvey: Let's move to international, and talk a little bit about the early successes of the international division due to Chairman Bill McDonough's personal diplomacy. Did you have a great division that was interested in going overseas?

Dan Goelzer: Yes, it's certainly true, Bill was really in his element negotiating with foreign regulators and foreign officials. He had worked at the State Department, I believe, early in his career. I think of him as a former fed official, and a former senior bank official, but before those things, he was a diplomat at the State Department, so he played a big role in our negotiations with foreign regulators.

Dan Goelzer: We knew from the beginning, just based on the statute, that we would have to conduct inspections outside the United States, because there certainly are many non-US accounting firms that audit, or participate in the audits of, companies that are listed on US exchanges. And the way the Act is written, those firms have to register with the PCAOB and are subject to inspection. I don't think we fully appreciated at the beginning what the complexities would be of being able to send inspectors into other countries to inspect accounting firms that were also subject to their home country regulator's jurisdiction. But it's something that we knew from the beginning that we had to do.

Dan Goelzer: Fairly early on, the idea also arose of creating an international organization, or a group of like-minded regulators. We'll talk about IFIAR perhaps in a few minutes, but that was part of the overall picture of international inspections. With help from Rhonda Schnare, who was the first Director of International Affairs, and others on the staff, we developed ideas for conducting joint inspections with foreign regulators. A joint inspection usually was much more palatable to the foreign regulator than simply having us come into their country and inspect a firm that was under their jurisdiction. In some cases, that would have been a problem under foreign law as well. But if we could inspect jointly with the home country regulator, then a lot of those problems dissolved, disappeared. Bill was great at negotiating with his foreign counterparts to open those doors, to be able to do that sort of thing.

Lucy Harvey: While the PCAOB has made a lot of progress on international inspections, explain the current situation with China.

Dan Goelzer: If you look back over time, there was a long list of countries that we couldn't inspect in—countries that have registered firms that were auditing US listed companies, but where the local authorities wouldn't let us inspect. Over time, that list has gradually been whittled down through diligent negotiations with counterparts, and through an increase in trust on the part of the foreign regulators in the PCAOB. I think IFIAR has been part of that picture.

Dan Goelzer: But as we sit here today, there are still two countries on that list where the PCAOB can't inspect: Belgium and China. Don't ask me about Belgium, I don't know why it's on the list, but China has been a problem spot for many years. There have been active negotiations with the Chinese regulators, certainly back

through the years that I was there, and after I left the Board. But it's never been possible to reach an agreement with them.

Dan Goelzer: I think it comes from several things. First, China does have strong feelings about its sovereignty and unwillingness to submit to authority of other governments, or other regulators. That probably has historical roots. I think they also have unusually strong laws on the confidentiality of corporate records and audit work papers. There has also always been at least some suspicion on the PCAOB's side, that, if you could see work papers for some Chinese public companies, and even the underlying corporate records, you might learn about involvement of the Communist Party in a way that wasn't being made public. You might learn about financial reporting issues that are fairly serious as well, particularly in the case of state-owned enterprises, where the Chinese government may have an interest in influencing their financial reporting.

Dan Goelzer: I hope those things aren't too cynical, but the fact of the matter is that, so far, it has not been possible to strike an agreement with the Chinese authorities to permit the PCAOB to inspect the audits of companies based in mainland China, although there are a significant number of those companies listed here and with PCAOB registered accounting firms as their auditors.

Dan Goelzer: While I was there, we certainly thought about de-registering those accounting firms. The accounting firms are not cooperating with PCAOB inspections. It may be that they're not cooperating because their government won't let them, but the fact still is, they aren't cooperating, and that would be a basis to de-register those firms. That, in turn, would place the companies they audit in violation of the provisions of the securities laws that say you have to have a PCAOB-registered auditor. That would open the door to the SEC taking action against those companies, which could in turn cause the exchanges to de-list them. I think that's always seemed like an unattractive option, at least to the SEC, because of who would suffer from the delisting. It would be largely the US investors that have investments in those companies and would find those investments to be illiquid and worth much less. So it's been a dilemma.

Dan Goelzer: I've been, I guess, amused and intrigued recently, because now, as a spin-off of the trade war with China, the Administration is looking at questions about the listing of Chinese companies in the US, and whether the US ought to de-list Chinese companies, or at least start being serious about enforcing these PCAOB requirements. Up until now, the PCAOB's problems with China have been, I think, very much below the radar of anybody in the White House--this White House, or the prior White House, or any other White House.

Dan Goelzer: But now there are bills in Congress to de-list Chinese companies that won't cooperate in PCAOB inspections, and there's been discussion about the issue in the context of the U.S.-China trade talks. Suddenly, this issue has risen to prominence, although, if anything, that may have caused the Chinese to dig in their heels even further, I'm afraid. I don't see a solution, in the short run.

Hopefully, the Belgians will come around, though. What their problem is, I don't know.

Lucy Harvey: All right. Let's move to the first big crisis that the PCAOB faced, and that was internal control. So, the auditing standard governing internal control over financial reporting proved to be the most profound and most controversial, of the standard projects to date. So, talk about the issues that erupted over enacting Section 404(b) of Sarbanes-Oxley.

Dan Goelzer: Well, yes. In terms of the enactment, I wasn't necessarily following these things with a magnifying glass in those days, because I didn't know how much I would be affected by them. But as I said earlier, Sarbanes-Oxley ended up passing in a crisis atmosphere. Parts of the bill had had hearings held on them, parts hadn't. There hadn't been a lot of scrutiny in the legislative process about what would it really mean to require than an auditor express an opinion on the effectiveness of a company's internal controls.

Dan Goelzer: The light began to dawn on people that this was going to be a major issue, after the bill was passed. It was one of those things that we flagged early on as something that would be a major project for us--to develop a standard on what was, in effect, a whole new audit. This is not just adding a component to the existing audit. We needed a new body of auditing standards to provide a basis for a whole new kind of opinion that auditors weren't previously expressing. For the reasons we've already discussed, in the Board's early days, we just had more pressing things we had to worry about. We knew this was something that would have to be done, and if I remember correctly, had to be done against a deadline, or at least there was an expectation that this would take effect in a reasonably short timeframe. But we had to get registration going, and inspections going, and staff-up the standard setting function.

Dan Goelzer: Eventually, of course, Auditing Standard No. 2 was adopted, and took effect, and firms started issuing opinions on the effectiveness of company internal control over financial reporting. The first year, particularly, I think was difficult. It was a lot of work for the auditors, and we heard that there were staffing shortages and even a need to import talent from other countries or hire people at lower levels to work specifically on ICFR auditing. I think it was a bit of a shock for the companies, too, which felt that the auditors had gone overboard, I guess you would say. The control testing was being done to a very extreme degree, too many controls were being identified as key to the company's financial reporting, the concept of materiality wasn't really being applied, at least in the way that the companies thought it should be, and it was having serious spillover effects on public companies.

Dan Goelzer: Of course, the company complaints brought the issue into the political sphere, as well, and it was clear that something had to be done. I remember the SEC had several public meetings about internal control auditing, over at the Commission. We PCAOB Board members were present for those, and we heard witnesses talking about the problems that internal control auditing caused for their

companies, and auditors talking about how it affected the audit process. On the other hand, investors were supportive of ICFR auditing and reporting. It was very much a divided issue--it wasn't something where all the voices were on one side. But it became clear to us, with some help from the SEC, that we had to make some kind of a change.

Dan Goelzer: So, work was started to revise Auditing Standard No. 2 and replace it with Auditing Standard No. 5. The underlying philosophy was that controls should be reviewed on what we called a "top-down" basis. Also, an objective of the revision was to make control auditing more risk-focused, so that the auditor was taking into account the risk that a particular control could result in a material misstatement in the financial statements. We wanted to discourage audits that were building up from the bottom, looking at the controls over petty cash, or something, that couldn't really, in the real world, have much of an impact on the company's financial reporting.

Dan Goelzer: I always thought that, to some extent, the transition from AS 2 to AS 5 had elements of PR to it. In other words, we didn't really weaken the control audit, or change the fundamentals of the control audit. But I think we did a much better marketing job than we had the first time around. We were telling people, "Look, you've got to be looking at the controls that would really affect financial reporting, not just everything that's a control somewhere in the company."

Dan Goelzer: We had a very effective staff working on the revision, Laura Phillips and Sharon Virag, particularly. I wouldn't by any means say it ended the complaints about internal control auditing. I'd say the debates settled down due to a variety of things. The adoption of AS 5 was one, but I think a lot of it was just the fact that the audit firms gained more experience with control auditing, and companies gained more experience with being audited. They strengthened their controls, and I think there was tremendous positive benefit. We often heard from internal auditors, and CFOs, that, that -- while the company might be complaining publicly -- this was an opportunity for them to put more resources into their controls and strengthen their controls. So I think ICFR auditing ended up being just a tremendous positive for financial reporting in the United States, and for the quality of auditing. An effective control audit certainly buttresses the financial statement audit. Restatements have fallen over the last 10 years or so, and I think ICFR auditing is a big reason why that's occurred.

Dan Goelzer: The debate has switched to, "How does the cost benefit equation work for smaller companies, where the costs are proportionally higher relative to the company's financial resources?" I do think the benefits are often greater for those companies as well, because they're likely to have more primitive control systems. But the issue has become one in the political sphere, and so Congress has taken steps to exclude smaller companies, non-accelerated filers particularly, from the internal control attestation requirement.

Dan Goelzer: I also think the debate about internal control audits probably thrust the PCAOB into the consciousness of the reporting community. We were already a factor for the auditors and those who followed auditing, but a little less visible to the public company world at large. ICFR auditing brought us to the reporting community's attention, not necessarily in a good way. But hopefully the Board did get some credit for trying to address the issues that companies were raising.

Lucy Harvey: Sharon Virag has said she left the PCAOB after her work there, and has worked in the profession for years, and she gets a lot of credit from people who say, "You wrote AS 5." And she says, "No, I negotiated AS 5."

Dan Goelzer: Well, that's probably a good comment. Whether she wants to call it writing or negotiating, she certainly was a major part of that effort.

Lucy Harvey: Did that battle over internal control mark a sea change in the political climate for the PCAOB?

Dan Goelzer: Well, yes, in several ways. I know there are still people that are cynical about the PCAOB, but I think it did a lot, along with the early successes, or the early visibility, of the inspection program, to end this idea that we were just going to be captives of the profession and the business community, and weren't going to have much of an impact on audit quality and financial reporting. People might not have necessarily liked everything we were doing, but I think the idea that we were just sort of captives of the profession pretty much disappeared by that point.

Dan Goelzer: I'm sure you can find critics today that would still say that, but I don't think it's the prevailing view. It also, as I said a minute ago, brought the PCAOB back into the political sphere, and to the attention of Congress, because of concerns about the cost imposed on companies from internal control auditing and reporting. That wasn't always a positive. ICFR auditing caused the Board to have its critics in Congress, and ultimately caused Congress to cut back on the scope of Section 404(b) of Sarbanes-Oxley. But it did raise our visibility in both the issuer community and in the political community.

Lucy Harvey: Let's talk briefly about an existential crisis that the PCAOB faced, and that was a lawsuit that had been brewing since 2006 -- the Free Enterprise Fund versus the Public Company Accounting Oversight Board. Talk a little bit about the case, and the effect it had.

Dan Goelzer: Yes. Just in broad terms, the theory of the case was that the members of the PCAOB were exercising executive authority, governmental authority, but were too insulated from control by the President. The President is the head of the executive branch of the government, and officials in the executive branch are supposed to be accountable to the President. Of course, in our case, we were appointed by the SEC, and could be removed from our positions only by the SEC for cause. SEC Commissioners can only be removed by the President for cause,

so the problem was that PCAOB Board members were two levels of cause-removal insulated from Presidential control. That was presented to the courts as a separation of powers violation, a constitutional problem.

Dan Goelzer: In terms of what effect it had on the Board: The Supreme Court eventually took the case, and the case was decided in 2010. By the time the Supreme Court took the case, I think the staff was fairly well aware of it, and people did have concerns about what this was going to mean for us. The first thing I'd say is that the staff kept doing their job. There wasn't really any break in the PCAOB's work. Whatever people's personal concerns might have been, the work went on, as it would have without the litigation.

Dan Goelzer: It made hiring harder, I think. People wondered, "Do I want to join an organization that might be, in effect, abolished by a Supreme Court decision." I can't say that hiring stopped completely, but it certainly became much more difficult. The case also pretty much brought to a halt the SEC appointing new Board members. So, we had at least two Board members that were just holding over beyond their terms while the SEC was waiting to see the outcome of the Supreme Court case. Mark Olsen left the Board in July of 2009, and I became Acting Chair as a result of that. I think it just wasn't feasible for the SEC to find a new Chair for the PCAOB with the case pending. So it certainly had that kind of effect.

Dan Goelzer: As Board members, we wondered, "If this case were to be lost, what would that actually mean? Would it mean the Board would have to give back all the money it had collected over the past six years? Would the Board members be personally liable for all of the Board's debts?" Well, that didn't seem too likely, but, on the other hand, you couldn't say it was absolutely impossible. Would we have to essentially fire everyone and close our doors? When you looked at it a little bit more seriously, based on what the precedents were, we assumed that, even if the Court were to rule against the Board, it would stay that decision and give Congress an opportunity to correct the problem.

Dan Goelzer: But, what the chances were of getting Congress to act? What other changes would it want to make to the PCAOB along the way? These were also big unknowns. And how long would a stay be? Would we have to expect Congress to act over the Summer of 2010? There was a lot of uncertainty. We thought about contingency planning, at least in the sense of what the steps would be to get Congress to act and correct the problems. Other kinds of contingency planning really would have depended upon what our access to money was after the loss in the Supreme Court.

Dan Goelzer: Fortunately, it all turned out fine. The Supreme Court, in Solomon-like fashion, did rule that the Board structure was unconstitutional, but simply struck from the statute, or found invalid, the part of the statute that made Board members removable only for cause. As a result, the SEC could remove a Board member for any reason, at any time. That got rid of one level of insulation from Presidential control and made the Board constitutional.

Dan Goelzer: It did come down to the wire. I remember very well that the decision came out on the last day of the Supreme Court's 2010 term, so we knew that the decision had to come out on that Monday, because that was the last opportunity for the court to announce decisions from cases that were heard that term. And I remember for myself, I was kind of hunched over my computer following a blog that was reporting on the decisions as they were issued, which I guess is the main way to get real time-

Lucy Harvey: SCOTUS blog.

Dan Goelzer: The SCOTUS blog, exactly. Yeah.

Lucy Harvey: Refreshing.

Dan Goelzer: Yes. So, that's how I got the word, and I suspect that applied to many other people. I think shortly after that we did have an all hands meeting to make sure that the staff understood what had happened and that we could go on again without having to worry about the fact that the Board might be, in essence, abolished by judicial decision. So, it was an important day.

Lucy Harvey: It was an important day.

Speaker 3: Just FYI, we are coming up on 90 minutes.

Lucy Harvey: Okay, let's talk about broker-dealers. The PCAOB's mandate was broadened after the Madoff scandal, a \$65 billion Ponzi scheme uncovered December of 2008. So, describe how the auditors of broker-dealers suddenly came under the bailiwick of the PCAOB.

Dan Goelzer: Well, the Sarbanes-Oxley Act, from the beginning, required the auditors of broker-dealers to be registered with the PCAOB. You may have other sources on the reasons for that. What I heard was that, when the bill was going through Congress, somebody, and I heard it was Dean Shahinian, who was a guy I'd worked with at the SEC, great guy, who was on the Senate Banking Committee staff at that time. He simply went through the '34 Act, and wherever the words "independent public accountant" appeared, he changed them to "registered public accounting firm". But not much thought was given to what each of those changes meant in practice. Making that kind of change in Section 17 of the '34 Act meant that broker-dealer audit reports filed with the SEC had to be prepared by an audit firm registered with the PCAOB, even though the rest of the Sarbanes-Oxley Act didn't address anything other than public company auditors. So it was kind of an anomaly.

Dan Goelzer: After the law was passed, the SEC was aware of this problem, but each year in December they would, by order, suspend the operation of that provision for 12 months. As a result, the need for broker-dealer auditors to register with the

PCAOB didn't initially take effect. Madoff collapsed, I believe in early December of ...

Lucy Harvey: 2008.

Dan Goelzer: 2008. And I think, without any fanfare or public statement, the SEC decided it was not politically feasible to again extend the exemption, so suddenly all these broker-dealer auditors had to be registered with the PCAOB. But we had no other authority over them under the Act, except registration. From a certain perspective, this is one of the luckiest things that ever happened to the PCAOB, because, if Madoff's auditor had been registered with the PCAOB, and yet we hadn't been able to inspect him, or had any real control over him, I'm sure it would have been treated as a black eye for the PCAOB. It might well have been an existential threat to us, the way the Madoff collapse was an existential threat to the SEC. People were talking about abolishing the SEC, because it hadn't done its job, in their perception, on Madoff.

Dan Goelzer: But the authority problem did get corrected, in the Dodd-Frank Act. The Board was given inspection authority, enforcement authority, other kinds of authority over broker-dealer auditors. I think the current Board is still kind of struggling with what the contours of that program ought to be. But from an authority standpoint, it's there, and PCAOB oversight is operating today.

Lucy Harvey: IFIAR, let's talk about that quickly.

Dan Goelzer: Sure.

Lucy Harvey: In March 2011, you were elected Chairman of the International Forum of Independent Audit Regulators, and that's an international group that was started in 2006, and what did the Board-

Dan Goelzer: I was Vice Chairman-

Lucy Harvey: All right, let's get it right. What did the Board think of IFIAR?

Dan Goelzer: Well, this was all a little under the radar, but in my recollection, the relationship with IFIAR was one of the most controversial things among the Board members during the time I was there. Some people felt it was desirable to have an international organization of other audit regulators that are, like the PCAOB, independent of the profession, but others were concerned that IFIAR could perhaps be used as a sort of a tool against the PCAOB. A concern was that the other regulators might use IFIAR as a platform to band together and all say, "Well, let's not let the PCAOB inspect in our jurisdiction. We're perfectly competent to perform inspections and we'll inform the PCAOB of how our inspections turn out. But they shouldn't be coming into our jurisdiction."

Dan Goelzer: That was very much still a hot issue in the early days of IFIAR. I felt, since we'd been part of creating IFIAR, we should be in the leadership of IFIAR, but, at the same time, we didn't want IFIAR to be making too many decisions on its own. It should be more a body for sharing information and expertise, rather than setting policy. Now, I think that the PCAOB's attitude towards IFIAR has changed over time. Of course, as we discussed earlier, the attitude of the foreign regulators towards PCAOB inspections has also changed, so IFIAR has become a -- maybe 'powerful' isn't quite the right word -- but an influential and important body in independent auditor oversight.

Dan Goelzer: There is one other thing I should say in this context. IFIAR, as its name suggests, is for regulators that are independent of the audit profession in their jurisdiction. After the PCAOB was created, many countries followed the PCAOB model and created an independent audit regulator. I've always felt that that was an example of imitation as the sincerest form of flattery. The PCAOB model really has spread almost worldwide at this point.

Lucy Harvey: Having been part of the PCAOB when it opened its doors, how in your estimation has the profession adjusted to this idea of external oversight?

Dan Goelzer: Well, , I would say it has adjusted well, but there were certainly bumps in the road. In the early days, particularly, the firms were -- I'm thinking of the large firms -- were fairly dismissive of PCAOB inspection findings. They would often make statements along the lines of, "Well, auditing requires a lot of judgment, and of course, the judgment of professionals may necessarily differ, and so these inspection findings just reflect matters of differing professional judgment between us and the inspection staff."

Dan Goelzer: Over time, each of the firms has gone through a kind of enlightenment, where they've concluded that that isn't the right attitude to have towards the PCAOB. Whether they fully agree with inspection findings or not, the better course is to try to strengthen their internal procedures, their internal audit oversight, their staff training, whatever is required, in order to address inspection findings and prevent a repetition. I know that today each of the large firms spends significant resources on quality control and addressing PCAOB inspection concerns. I think it's made a big difference in auditing.

Dan Goelzer: If you look today at the United Kingdom, there's kind of a crisis in audit oversight, because there have been some significant financial reporting failures. Over here, people have criticisms of auditing, things go wrong. But we really, to my perception, just don't have anything like the same kind of crisis that they're having in the UK. I think the two differences are, first, the vigor of the PCAOB's inspection program, and, second, the existence of the ICFR audit, and the PCAOB's oversight of that audit. While there are costs involved and there is a price to be paid for everything, I think those two things have made a big difference in auditing here, and I think the firms recognize that. Today, I don't think they would change the system, even if they could.

Lucy Harvey: When you look back over your 62 open Board meetings in your nine years at the PCAOB, what are you most proud of that you accomplished during your time there?

Dan Goelzer: Well, just going back to what we've discussed here, and particularly at the beginning, I think it's that when I left the PCAOB, nine and a half years after starting there, that there still was a PCAOB. When I think back to the early days, there was so much suspicion and doubt and skepticism. But when I left in 2012, I think it's fair to say that PCAOB was a respected part of the financial reporting oversight structure in the United States.

Dan Goelzer: As I've just said, I think the PCAOB has made a real difference in audit quality. During those nine and a half years – and if you say 62 open meetings, I'll accept that number-- I think the Board and staff were able to make a real difference in confidence in public company financial reporting in the United States and to establish an oversight body that's enduring.

Lucy Harvey: For my final question, I just want to ask, shortly before you left the PCAOB, you were awarded the William O Douglas Award from the SEC Alumni Association, and in your acceptance speech, you talked about the culture of the SEC, and that you had hoped you could instill a similar culture at the PCAOB, and I just wanted to ask, while you were there, during your time, do you feel like you accomplished that?

Dan Goelzer: I do. From the perspective of what the PCAOB looked like when I left in February of 2012, I think we had selected people and created a culture that built that same kind of esprit that I felt existed when I was at the SEC in the '70s and '80s. To make an organization work, I think you have to have that kind of spirit of teamwork and commitment to a mission. A lot of the people that we hired, particularly in the early days, came because they felt strongly about the auditing profession, or felt embarrassed about some of the things that had happened in auditing in the '80s, and wanted to make a difference. I think we were able to accomplish that. I certainly hope so. If that is the case, that would be the thing I was the most proud of.

Lucy Harvey: Thank you, Dan. This has been wonderful, fascinating conversation.

Dan Goelzer: Well, thank you Lucy, I've enjoyed it.

Speaker 3: Excellent.