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Keeping Watch! Recounting Twenty-Five Years of the Office of Chief Accountant, U.S. Securities and Exchange Commission, 1976–2001

This article adds to the literature of accounting regulation by providing background, including facts and circumstances relating to a quarter century of SEC activity preceding the events identified with the reshaping of the capital markets following the dot.com collapse and the attack on the World Trade Center, 11 September 2001. The subsequent collapse of Enron, the bankruptcy of Worldcom, the dissolution of Andersen, one of the Big Five accounting firms, and the passage in the United States of the Sarbanes-Oxley Act, collectively have ushered in a new era of public-private capital market relationships. This study provides guidance and outlines topics useful to future researchers undertaking assessments of regulatory policies and the individuals involved in their administration.

From 1976 to 2001 five individuals played a significant role in the development of the U.S. Securities and Exchange Commission's disclosure and reporting practices by virtue of their office and the collective influence of their views. A. Clarence Sampson (1976–87), Edmund Coulson (1988–91), Walter P. Schuetze (1992–95), Michael H. Sutton (1995–98) and Lynn E. Turner (1998–2001) directed accounting policy activities at the SEC during these years.

Key words: Accounting policies; History; Office of Chief Accountant; Regulation; SEC chief accountant; U.S. Securities and Exchange Commission.

The U.S. Securities and Exchange Commission (the SEC or Commission hereafter) is more than a public watchdog agency for the buying and selling of U.S. securities. The SEC estimated that 14,100 entities will file annual reports with the Commission in fiscal year 2003 (USSEC, 2002). Simply put, the 'Commission is a small agency with a big mission—protecting investors' (Hunt, 1997, p. 6). The SEC's primary responsibility with regard to financial reporting is to promote full and fair disclosure. To that end, the SEC and its relationship with those who are involved in the communication of information to the capital market community are important.

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The process of such communication is both dynamic and evolutionary; consequently, new or revised administrative interpretations and practices arise in response. While many groups (auditors, preparers, academics, investors) have contributed to the corporate external reporting process, no one group has influenced business reporting more than the Office of the Chief Accountant (OCA hereafter). Eleven individuals have held permanent appointments as chief accountant from the SEC's inception through to 2002. Previts (1978) outlines the background and accomplishments of the first five chief accountants from the beginning of Carman G. Blough's term in December 1935 to the end of John C. Burton's term in September 1976¹ (and see Moran and Previts, 1984, for an overview of the first fifty years of the SEC).

This article identifies and describes important issues and policies that the next five chief accountants, who held office from September 1976 to August 2001, have addressed—A. Clarence Sampson (1976–87), Edmund Coulson (1988–91), Walter P. Schuetze (1992–95), Michael H. Sutton (1995–98) and Lynn E. Turner (1998–2001). Each chief accountant was affected by specific economic and political events which shaped the marketplace (oil and gas accounting, savings and loan crisis, and so forth). However, there are evergreen issues that transcend individual chief accountants and are fundamental topics in a regulatory regime. These topics are identified regularly in the activities of the subjects of our study to include: auditor independence and scope of services; evaluation of internal controls and auditor's responsibility for detection of fraud; the quality of global financial reporting; and the process by which financial reporting standards are established.

While the discussion in this article is directed to those individuals who were permanent appointments to the chief accountant's position, for purpose of a complete record, Figure 1 also identifies the individuals who held this position on an acting basis.

ORIGINS OF THE SEC, THE OFFICE OF THE CHIEF ACCOUNTANT, AND AUDIT INDEPENDENCE AT THE SECURITIES AND EXCHANGE COMMISSION

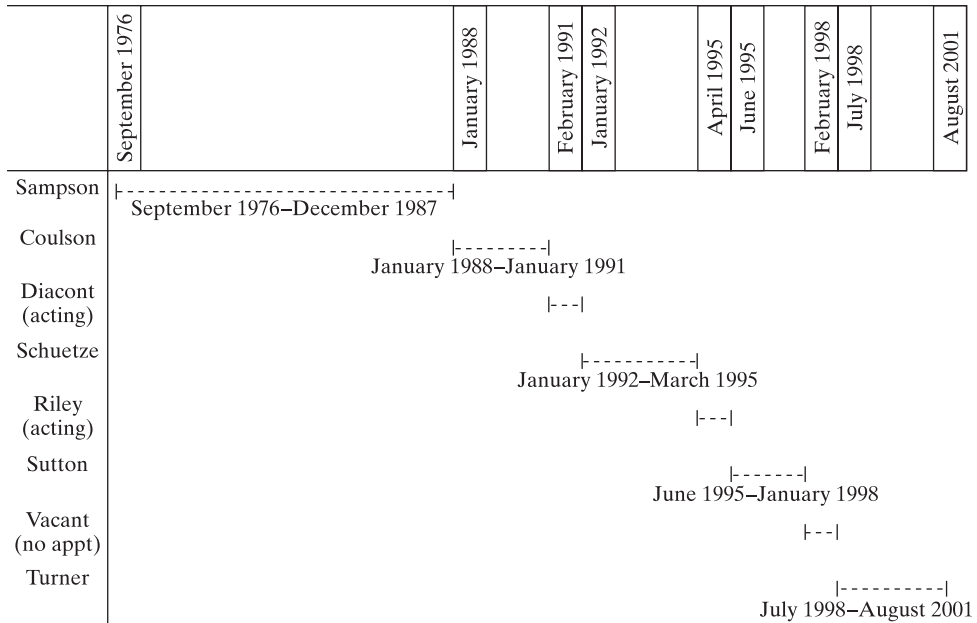
Federal government regulation of the securities markets followed the 1929 stock market crash (Flesher and Flesher, 1986; Committe, 1989). Initially, the Securities Act of 1933 (the 'registration act') was the responsibility of the Federal Trade Commission, but with the passage of the Securities Exchange Act of 1934, the SEC was established and assumed responsibility for both initial and continuing registration of public company securities (USSEC, 1997c). As an independent, non-partisan, quasi-judicial regulatory agency the SEC has, as one of its primary responsibilities, to promote full and fair disclosure in order to protect the public interest.

¹ The first five chief accountants were Carman G. Blough (1935–38), William W. Wertz (1938–47), Earle C. King (1947–56), Andrew Barr (1956–72) and John C. Burton (1972–76) (Previts, 1978).

SEC CHIEF ACCOUNTANTS 1976–2001

FIGURE 1

U.S. SECURITIES AND EXCHANGE COMMISSION HISTOGRAM—
OFFICE OF THE CHIEF ACCOUNTANT, SEPTEMBER 1976–AUGUST 2001



Office of the Chief Accountant

The chief accountant is the principal adviser to the Commissioners and other senior administrators on accounting and auditing matters arising from the various securities laws. Primary activities of the OCA are designed to achieve compliance with accounting and financial disclosures required by Federal securities laws (USSEC, 1997c).

The OCA assists the Commission in monitoring the structure, activity and decisions of private-sector standard-setting organizations, which includes the Financial Accounting Standards Board (FASB), and works closely with the AICPA and other professional organizations that are involved in preparing and disseminating financial information and corporate reports to the capital markets. The SEC also maintains important liaisons with the AICPA’s Auditing Standards Board, its SEC Practice Section, its Accounting Standards Executive Committee, and until recently the Independence Standards Board and the Public Oversight Board. The last two entities concluded their operations in late 2001 and early 2002, respectively (USSEC, 2001b; USGAO, 2002). Under the law establishing the Public Company Accounting Oversight Board the SEC has primary oversight responsibility for this new agency, the registration of public company auditing firms, audit standard setting for public companies and the periodic inspection of registered

auditing firms (Sarbanes-Oxley Act, 2002). The OCA also is responsible for making recommendations to the SEC Division of Enforcement which was created in August 1972 (Moran and Previts, 1984).²

Although the Commission was established in 1934, a rationale to provide an accounting disclosure system remained unclear until 1938, when the SEC issued Accounting Series Release (ASR) No. 4 (USSEC, 1938). This release established that substantial authoritative support identified with sources in the private sector would serve as the basis for accounting principles recognized by the SEC.³ In the early 1940s, the SEC codified as Regulation S-X (ASR 12), the form and the content of financial statements to be filed with the Commission (USSEC, 1940).⁴ Taken together, a process for identifying the principles, form and content of public company reporting intended to elicit informative disclosure was thus put in place.⁵

Regulation in the U.S.—Mandates and Markets

In his writings on the themes of American regulatory experiences, beginning with the nineteenth-century state railroad commissions, through the Progressive, New Deal and Great Society periods of U.S. history, McCraw (1984) asserts that while multiple theories of regulation exist, only one is very useful, namely the theory of ‘public use of private interest’. ‘According to this idea, regulators should always exploit the natural incentives of regulated interests to serve particular goals that the regulators themselves carefully defined in advance . . . [R]egulation in America has succeeded best,’ he argues, ‘when it has respected these incentives instead of ignoring them; when it has based its strategies less on some idealized vision of what the economy should do and more on a clear understanding of what the economy actually is doing. Regulatory strategies framed in ignorance or disregard of real economic conditions and market incentives . . . usually have led only to unfortunate results’ (pp. 308–9).

In terms of the capital market demand for audited financial reports during the period of this study, the SEC as the principal Federal regulator was affected by an increasingly popular political mood to seek ‘marketplace’ (i.e., deregulatory) solutions to resolve economic issues. Deregulation of industries, from interstate trucking and airlines, to electrical generation/energy and telecommunication, has been proposed as the appropriate approach.

During the 1976–2001 period, consistent with this view, CPAs found themselves coming to terms with a longstanding Federal Trade Commission (FTC) initiative

² The Division of Enforcement was established to investigate possible violations of the federal securities laws and to prosecute the SEC’s civil suits in the federal courts as well as its administrative proceedings.

³ SEC’s formal recognition of private sector standard setting is traced to 1938—ASR 4, 25 April 1938 (Moran and Previts, 1984).

⁴ Other important nonfinancial disclosures are specified in Regulation S-K.

⁵ The SEC’s principal accounting requirements are still contained in Regulation S-X, which governs the form and content of financial statements filed with the Commission.

which sought to reduce perceived barriers to competition including ethical precepts such as CPA prohibitions on advertising, commissions and contingent fees, as well as solicitations of audit clients and competitors' personnel. In the FTC's view, the mandated service role of the CPA as auditor was to be supplanted by a market defined scope of service consistent with the needs of users and the competencies of the providers as bargained for in the marketplace. In this competitively determined market, growth by acquisition of other professional service firms became commonplace as technology expanded the market accessible to firms into one which required global reach. Adjusting the role of both professional and government regulatory regimes to this view posed significant challenges to the national professional CPA organizations, State boards and societies, and in particular to the SEC and its principal accounting policy advisor, the chief accountant. Arguably deregulation, based on market principles, was closer to home, it was more State than Federal and more was expected of self-regulatory processes being disciplined by market response. The service providers and their professional organizations held a larger profile in providing the consumer quality services in a rapidly changing and competitive marketplace.

Since the adoption of ASRs 4 and 12, the private sector has worked with the SEC to improve accounting and reporting standards through various private-sector bodies—most recently the FASB. On 20 December 1973, the Commission specified its recognition of the FASB in ASR 150 (USSEC, 1973), stating that financial statements conforming to standards set by the FASB would be presumed to have substantial authoritative support.⁶ Since 2000, when it issued a concept release on the subject, the SEC has participated in forums to develop a globally accepted financial reporting framework, such as found in the standards of the International Accounting Standards Board (USSEC, 2000c).

Accounting authoritative guidance offered by the Commission from 1937 through to March 1982 took the form of Accounting Series Releases. Over three hundred were issued. On 15 April 1982, these were superseded by two new series of releases: Financial Reporting Releases (FRRs) for accounting and auditing related matters, and Accounting and Auditing Enforcement Releases (AAERs) for enforcement matters. Prior releases still in effect were codified in FRR 1 (USSEC, 1988b) and AAER 1 (USSEC, 1988c), financial reporting releases, and accounting and auditing enforcement releases, respectively. As of 31 August 2001, fifty-six numbered FRRs and 1,434 AAERs had been issued. Table 1 and Figure 2 indicate the frequency of these releases for the periods of service of the five individuals in this study.

During the term of chief accountant John (Sandy) Burton in November 1972, additional published staff guidance was developed, when the OCA announced that it would issue a series of Staff Accounting Bulletins (SABs), intended to provide a

⁶ In 1976 the SEC appointed the Advisory Committee on Corporate Disclosure to examine the system of corporate disclosure. This committee recommended that the SEC adopt an integrated process to link the reports required under the 1933 and 1934 Securities Acts into a continuous disclosure system (Moran and Previts, 1984).

ABACUS

TABLE 1

U.S. SECURITIES AND EXCHANGE COMMISSION
ACCOUNTING AND ENFORCEMENT RELEASES, SEPTEMBER 1976–AUGUST 2001

Year/name of chief accountant	ASRs ⁽¹⁾ 1937– 31 March 1982 Accounting	ASRs ⁽²⁾ 1937– 31 March 1982 Enforcement	FRRs 1 April 1982– 31 August 2001 Accounting	AAERs 1 April 1982– 31 August 2001 Enforcement	SABs 1975– 31 August 2001 Bulletins
1937–1976 Blough–Burton	143	53	0	0	38
1976	2	5			
1977	12	22			
1978	11	12			
1979	8	6			
1980	7	3			
1981	16	3			4
1982	4		9	3	7
1983			6	16	6
1984			5	28	2
1985			3	36	3
1986			5	40	7
1987			2	51	7
Sampson	60	51	30	174	36
1988			3	37	6
1989			3	39	7
1990				36	1
1991					
Coulson	0	0	6	112	14
1991 Diacont (acting chief)	0	0	2	62	3
1992			1	87	
1993			1	76	2
1994			3	124	
1995				12	
Schuetze	0	0	5	299	2
1995 Riley (acting chief)	0	0	1	38	1
1995				58	1
1996			1	123	2
1997			3	138	
1998				2	
Sutton	0	0	4	321	3

SEC CHIEF ACCOUNTANTS 1976-2001

TABLE 1
(CONTINUED)

Year/name of chief accountant		ASRs ₍₁₎ 1937- 31 March 1982 Accounting	ASRs ₍₂₎ 1937- 31 March 1982 Enforcement	FRRs 1 April 1982- 31 August 2001 Accounting	AAERs 1 April 1982- 31 August 2001 Enforcement	SABs 1975- 31 August 2001 Bulletins
1998	OCA vacant	0	0	1	33	1
1998				2	55	
1999				1	106	3
2000				3	157	
2001				1	77*	1
	Turner	0	0	7	395	4
	September 1976- August 2001	<u>60</u>	<u>51</u>	<u>56</u>	<u>1434</u>	<u>64</u>
	1937- August 2001	<u>203</u>	<u>104</u>	<u>56</u>	<u>1434</u>	<u>102</u>
		ASR 1-307 (A & E)		FRRs 1-56	AAERs 1-1434	SABs 1-102

ASR₍₁₎ = Accounting Series Releases: Accounting and Auditing
 ASR₍₂₎ = Accounting Series Releases: Enforcement
 FRR = Financial Reporting Releases
 AAER = Accounting and Auditing Enforcement Releases
 SAB = Staff Accounting Bulletins
 * AAER No. 1400 intentionally omitted by SEC

FIGURE 2

U.S. SECURITIES AND EXCHANGE COMMISSION
 ACCOUNTING AND ENFORCEMENT RELEASES, SEPTEMBER 1976-AUGUST 2001



wider dissemination of the administrative interpretations and practices utilized by the Commission's staff (the OCA and the Division of Corporation Finance) in reviewing financial statements. SABs assist in achieving consistency and reduce the likelihood of redundant comments. While these documents do not have authoritative status, they are important guides to accepted practice. As of 31 August 2001, 102 numbered SABs had been issued.⁷

Audit Independence

Auditor independence is more than a requirement imposed by the Federal securities laws. Accountants have both a professional and an ethical duty to observe independence requirements related to their audit clients.⁸ The origin of independence for the auditing function within securities laws is often traced to the appearance of Colonel Arthur Carter, then managing partner of Haskins & Sells (now Deloitte & Touche LLP) and president of the New York State Society of CPAs, before the Senate Banking Committee in 1933. Carter's congressional testimony emphasized that independent accountants should audit financial statements of public companies. The official transcript of the 1933 Senate Banking hearing on the proposed securities law includes the following dialogue between Carter and the Committee Chair, Senator Alben Barkley of Kentucky (U.S. Congress, 1933, p. 56):

- Senator Barkley: Is there any relationship between your organization and the organization of controllers represented here yesterday . . . ?
- Colonel Carter: None at all. We audit the controllers.
- Senator Barkley: You audit the controllers?
- Colonel Carter: Yes; the public accountant audits the controller's accounts.
- Senator Barkley: Who audits you?
- Colonel Carter: Our conscience.
- Senator Barkley: I am wondering whether after all a controller is not for all practical purposes the same as an auditor, and must he not know something about auditing?
- Colonel Carter: He is in the employ of the company. He is subject to the orders of his superiors.
- Senator Barkley: I understand. But he has got to know something about auditing?
- Colonel Carter: Yes.
- Senator Barkley: He has got to know something about bookkeeping?
- Colonel Carter: But he is not independent.

The decision to involve an independent auditor and the public accounting profession in a unique role of protecting the nation's public capital markets system—with the oversight of the SEC—traces its social contract basis to these securities laws of the 1930s.

'Since the Commission's creation in 1934, it consistently has emphasized the need for auditors to remain independent' (USSEC, 1998a, p. 2). The Commission's regulations on independence are set forth in Rule 2-01 of Regulation S-X and in the extensive interpretations, guidelines and examples for registrants and auditors

⁷ On 9 May 2003 a codification of all SABs, to include removal of material no longer needed due to changes in authoritative standards, was issued as SAB 103 (USSEC, 2003b).

⁸ AICPA SAS 1 (AU §220.03) and the AICPA Code of Professional Conduct.

to use in evaluating specific independence questions that are collected in Section 600 of the Codification of Financial Reporting Policies. According to the SEC, ‘the basic test for auditor independence is whether a reasonable investor, knowing all relevant facts and circumstances, would perceive an auditor as having neither mutual nor conflicting interests with its audit client and as exercising objective and impartial judgment on all issues brought to the auditor’s attention. In determining whether an auditor is independent, the Commission considers all relevant facts and circumstances, and its consideration is not confined to the relationships existing in connection with the filing of reports with the Commission’ (USSEC, 1998a, p. 2).

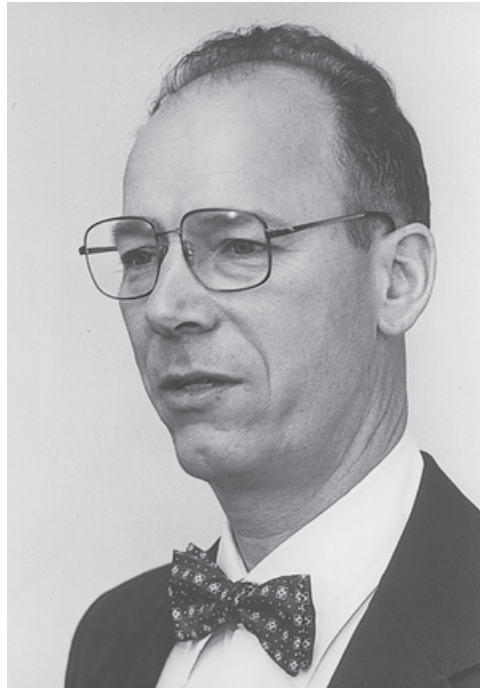
SEC CHIEF ACCOUNTANTS

Chief accountants have dealt with a number of complex accounting and market conditions. A profile of each chief accountant and major issues and policies each addressed during their terms of office is presented in the following section.

A. Clarence Sampson (September 1976–December 1987)

Andrew Barr, the SEC’s chief accountant from November 1956 to January 1972, recruited Clarence Sampson to the SEC in 1959. Sampson, a 1953 graduate of the

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University of Maryland, spent two years in the Auditor General's Office with the U.S. Air Force (1954–56). He passed the CPA examination (1956) on his first attempt, placing first in Maryland. During his early career, he worked for Arthur Young & Company (1956–57) and Litton Industries (1958–59). He also taught accounting part-time at the University of Maryland from 1959 through to 1963 (Hrisak, 1979).

Sampson's first assignment at the SEC was in the Division of Corporation Finance. He was transferred to the OCA where he served as associate chief accountant for eight years (1968–76), and briefly as acting SEC chief accountant following the retirement of Barr, prior to the appointment of John C. Burton in 1972. He served as deputy chief accountant under Burton and assumed the position of acting chief accountant in September 1976, when Burton left the SEC.

During this period the Moss Bill was introduced in the House of Representatives (U.S. Congress, 1978). This bill, called the Public Accounting Regulatory Act, called for the establishment of the National Organization of Securities and Exchange Commission Accountancy (the NOSA, modelled after the National Association of Securities Dealers), which would consist of public and private participation in the regulation of auditors. This new organization would, under SEC oversight, review the audit work performed by independent public accounting firms, investigate audit inadequacies and complaints and take disciplinary actions where necessary. Public company auditing firms also would be required to register with the NOSA.

The bill did not gain sufficient support for action; instead, the AICPA's private-sector response to support the Division of CPA Firms within the AICPA was furthered as appropriate to the issues of the time. It is noteworthy, however, that a concept which today has led to the establishment of the Public Company Accounting Oversight Board (PCAOB) under the Sarbanes-Oxley Act of 2002 had debuted in the Moss Bill nearly twenty-five years before, during another period of political unrest as to corporate accountability in the wake of Watergate.

Sampson was appointed permanently to the position of chief accountant in August 1978 by SEC Chairman Harold M. Williams. Early in his term, in a June 1979 interview conducted by the *Journal of Accountancy*, Sampson identified several challenges that he felt the accounting profession was facing (Hrisak, 1979). He noted that the 'independence of accountants will continue to be a most essential factor in financial reporting' (p. 50). He then went on to specify that, 'If the accounting profession strives for independence and self-discipline, implements a realistic system for inflation accounting and develops a strong conceptual framework for accounting, it will have overcome some of the major hurdles facing it today' (p. 51). Sampson responded to other interview questions such as:

Question: What do you see as the major challenges facing the Financial Accounting Standards Board today?

Answer: The conceptual framework project is perhaps the most important one. There are still some difficult decisions to make. The immediate questions are the exposure draft on changing prices, foreign currency translation, the definition of elements of financial statements and the consideration of the earnings

report and the funds flow and liquidity project—both in regard to format and to objectives. I believe the board is now making real progress and in the next year we may see final statements in these areas. (Hrisak, 1979, p. 51)

Several months later at the Accounting Research Convocation at the University of Alabama, Sampson (1979b) in his paper presentation affirmed ‘the FASB’s conceptual framework project is the most important financial reporting matter facing the profession’ (p. 22). He felt that ‘the lack of a comprehensive and meaningful conceptual framework has been largely responsible for the past failure of private-sector standard-setting bodies and the recent criticism of the FASB’ (p. 23).

Sampson added: ‘if the government sets the standards we’d have more of an Internal Revenue Service mentality in financial reporting than we do now. The entire process is effective because the profession is obligated to follow its own standards. And frankly, that approach is consistent with my own philosophy that the government should not do anything that it doesn’t have to do. Over time, we’ve done a number of regulatory things, but we only did those things we had to do’ (*JofA*, 1988b, p. 80). For example, Sampson (1979b) noted that:

While the staff’s primary goal is to ensure compliance with standards, such reviews sometimes provide evidence of a need for reexamination of the standards themselves. In these situations the Commission staff will communicate its findings to the FASB staff for their consideration. This type of interaction between the respective staffs should help to improve accounting standards and, thus, corporate financial reporting . . . Accounting series releases (ASRs) are issued by the Commission on various accounting practices and disclosure rules. ASRs have been issued on occasion when the private sector has been slow to react to changing conditions (e.g., accounting for leases, interim financial reporting, replacement cost, etc.). (p. 18)

On 19 December 1977, the Foreign Corrupt Practices Act of 1977 (FCPA) became effective, requiring reporting companies to make and maintain books, records and accounts that, in reasonable detail, accurately and fairly reflected the transactions and dispositions of the assets of the issuer. Reporting companies further were required to devise and maintain a sufficient system of internal accounting controls. Sampson believed that the FCPA would profoundly impact the internal auditing profession because of the increased emphasis on corporate accountability. Responding to this new legislation in February 1978, the SEC issued ASR 242 (USSEC, 1978a), which stated:

The Commission wishes to call to the attention of issuers, accountants, attorneys and other interested persons the enactment of the Foreign Corrupt Practices Act of 1977 . . . Because the Act became effective upon signing, it is important that issuers subject to the new requirements review their accounting procedures, systems of internal accounting controls and business practices in order that they may take any actions necessary to comply with the requirements contained in the Act. (pp. 1–2)

Speaking before the Institute of Internal Auditors’ 38th International Conference in June 1979, Sampson (1979a) noted that ‘Challenges to, and pressures on, internal auditors, both individually and as a profession, are abundant as a result of the enactment of the Foreign Corrupt Practices Act’ (p. 30) and that ‘It is not

surprising that many companies are relying heavily on internal auditors to help answer these questions—and probably even more heavily to implement the solutions. This emphasis certainly will not be short term’ (p. 29).

Following the ‘oil crisis’ of the 1970s, Congress passed the Energy Policy and Conservation Act of 1975 (EPCA). The FASB (1977) issued SFAS 19 (*Financial Accounting and Reporting by Oil and Gas Producing Companies*) in December 1977 to address related reporting issues. The Statement prescribed a form of the ‘successful efforts’ method of accounting and excluded the ‘full cost’ method. Following the SEC oil and gas public hearings in 1978, the SEC issued ASR 257 (USSEC, 1978d) in December 1978, which defined the practices of oil and gas producers based on the successful efforts method. This release amended a number of the SEC’s previous accounting and reporting requirements for oil and gas producers. The SEC acting precipitously and without significant influence of the FASB, issued ASR 258 (USSEC, 1978c) in December 1978 permitting registrants to follow the successful efforts method of accounting (SFAS 19) or the full cost method (ASR 258). By doing so, many felt that the SEC had undermined SFAS 19 (FASB, 1977) and the policy of ASR 150 (USSEC, 1973) to support the FASB’s authority.

Political and economic issues, such as the quest for an improved overall accounting method (reserve recognition accounting [RRA]) as well as public concern for the U.S. to achieve domestic production and ‘energy independence’ were among the issues found to have caused the SEC’s action (Gorton, 1991). The smaller domestic oil and gas producers, who had demonstrated ability to respond to short term increases in demand, felt they had lost an important option when SFAS 19 (FASB, 1977) mandated only successful efforts accounting could be employed as GAAP. The RRA method was found to be insufficiently developed, and while supplemental disclosures relating to reserve information would be forthcoming in SFAS 69 (FASB, 1982), the application of successful efforts and full cost methods both were reaffirmed as GAAP by SEC action in this episode.

The oil and gas issue would be heard one more time before Sampson left the SEC. At a public hearing on 30 October 1986, the Commission voted 4-1 not to abolish the full cost method of accounting for oil and gas companies. By doing so, the SEC concluded there was continued justification to allow oil and gas companies to use either the successful efforts method or the full cost method. ‘During its deliberations, the SEC voiced concern that the harm to struggling oil and gas producers of going forward with the proposal would outweigh any benefits to investors . . . Interior Department Secretary Donald Hodel lauded the SEC decision, saying that it “prevents the creation of another obstacle to domestic production of oil”’ (*JofA*, 1987, p. 50).

Sampson also formally established an Academic Accounting Fellows Program in 1979, patterned after the Professional Fellows Program started in 1972 by his predecessor Sandy Burton. This selective program affords senior accountancy faculty an opportunity to serve for a one-year term as a member of the OCA staff. Further, he advocated disclosure requirements for reporting auditor changes (ASR 247) (USSEC, 1978b) and is credited with initiating FRR 31 (USSEC, 1988a) which identified reportable items related to changes in accountants and potential

opinion shopping situations. He also laid the groundwork for a formal peer review process requirement, which was subsequently adopted by the SEC (*JofA*, 1988b).

Regulation S-X, first adopted in 1940, was modified and updated during Sampson's term when a number of significant changes to the SEC's disclosure system were initiated. For example, ASR 206 (USSEC, 1977) was issued on 13 January 1977, seeking a further simplification of reporting.⁹ A number of other reporting improvements were achieved by the issuance of ASR 279 (USSEC, 1980a), ASR 280 (USSEC, 1980b) and ASR 281 (USSEC, 1980c)—all issued on 2 September 1980.¹⁰ These releases facilitated the Integration Project, whereby financial information in 10Ks and annual reports would henceforth contain an identical 'basic information package' which would produce conformed financial report contents for 10Ks and annual reports as part of a single disclosure system advocated by both the Cohen Commission and the Wheat Commission. These April 1982 releases also specified the basis for the two new SEC series—Financial Reporting Releases and the Accounting and Auditing Enforcement Releases.

Upon retirement from the SEC in December 1987, Sampson was selected to serve as a member of the FASB and Edmund Coulson, deputy chief accountant, was appointed to succeed him (*JofA*, 1988a). In 1993, the Public Oversight Board presented its John J. McCloy Award to Sampson in recognition of his distinguished career (*JofA*, 1993). Sampson retired from the FASB on 30 June 1993.

Edmund Coulson (January 1988–January 1991)

SEC Chairman David S. Ruder announced the selection of Edmund Coulson as chief accountant, stating: 'We have selected the individual who combines the highest level of technical expertise in SEC accounting and auditing issues and with long experience at the commission. He has been in the forefront of developing an aggressive commission posture concerning the responsibility of the accounting profession to ensure the integrity and credibility of the financial disclosure system' (*Los Angeles Times*, 1988, p. 3).

Coulson, a 1970 University of Maryland graduate, had acquired several years experience as a CPA in public practice with the firm A. M. Pullen & Co. (now McGladrey & Pullen, LLP) before joining the SEC in 1975, starting in the Division of Corporation Finance (McGoldrick, 1991). Coulson held the position of deputy chief accountant for five years prior to assuming the position of chief accountant. As to his new role, Coulson stated that the SEC 'is first and foremost a law

⁹ ASR 206 (USSEC, 1977) revised and decreased the number of items of information required to be included in Form 8-K by approximately 62 per cent by transferring the reporting of certain items to the Form 10-Q. Before recent amendments, Form 8-K was used to report the following events: (a) changes in control of registrant; (b) acquisition or disposition of assets; (c) bankruptcy or receivership; (d) changes in registrant's certifying accountant; (e) other materially important events; (f) resignations of registrant's directors; (g) financial statements and exhibits; (h) change in fiscal year; and (i) Regulation S offerings.

¹⁰ Prior to 1980, a number of SEC disclosure requirements were duplicated under the 1933 Act and the 1934 Act.

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enforcement agency’ and that he intended ‘to play an active and visible role in enforcement’ (Collins, 1989, p. 79).

Sponsored by the AICPA, the National Commission on Fraudulent Financial Reporting (NCFRR, or more commonly the Treadway Commission, named after its chair, former SEC Commissioner James Treadway) was formed in 1985 to address financial reporting fraud. The Treadway report was issued in 1987, just before Coulson assumed office. It highlighted the need for independent audit committees and identified a number of corporate governance practices that could reduce the possibility of fraudulent financial reporting. The Treadway Commission’s recommendations were followed up in meetings of the Committee of Sponsoring Organizations (COSO). Coulson began his responsibilities in office with a view that auditors should ‘take the Treadway Commission report seriously’ (Collins, 1989, p. 84).

Coulson worked closely with the private sector to address issues related to fraudulent financial reporting. Coulson emphasized the need to address management fraud to preserve the integrity of capital markets. Enforcement activity was enhanced during Coulson’s term as chief accountant when the agency increased its accounting staff to uncover disclosure violations by companies and individuals. For instance, he worked with the AICPA’s Auditing Standards Board on its

expectations gap¹¹ project and with the Treadway Commission and COSO to promote implementation of the report's recommendations (Collins, 1989). To that end, Coulson supported several steps to tighten auditor's communication rules in the aftermath of the fraud related to the ZZZZ Best case. For example, FRR 31 (USSEC, 1988a) required companies who change auditors (often a sign of trouble at a company) to notify the SEC within fifteen days of that event, instead of the previously required forty-five days. This change and related reporting provided for more timely disclosure in potentially troubled and uncertain situations in which a company might be opinion shopping—searching for a more liberal auditor.

He also pursued auditor independence issues including a concept release on the subject and an enforcement action against a major auditing firm with regard to loan arrangements between a financial institution client and partners of the firm. When the latter action was resolved, it would result in modifications of the AICPA's code of conduct so as to clarify and restrict loan arrangements between auditors and their financial institution clients.

The major independence determination which came to closure during Coulson's term, however, related to the scope of services issue. In February 1989, the SEC denied a petition of Arthur Andersen & Co., Peat Marwick Main & Co. and Price Waterhouse for relaxation of rules with regard to the types of business arrangements (subcontracting) the firms could enter into with their consulting groups and still remain independent (i.e., not have a mutuality of interest) when audit clients were served by both consulting and audit groups of a firm (USSEC, 1989).

Coulson called for substantial separations of the firms and their consulting operations, so that substantive separations of partnership arrangements, leases, employees, management and capitalization occurred. A year later the Andersen firm again petitioned and provided support to demonstrate such substantive activity, and to establish that there was *de minimis* economic impact in their relationships with Andersen Consulting (AC).

In a letter to the firm's representative, Robert M. Mednick (USSEC, 1990), Coulson stated, given the representations, that the OCA would not object to Andersen's conclusion that a business relationship between AC and the audit client of AA, structured as described, could be considered an indirect one for purposes of applying the SEC's audit rules. In this circumstance, the SEC would not seek to take action against the firm for independence violations. While Andersen's structuring approach was successful in achieving a 'no action' letter, other firms continued to wrestle with the matter of 'substantive' modifications. As various proposals from other firms to address this scope of service issue continued to appear during the 1990s they would lead to further tensions. In 1995, for example, KPMG Peat Marwick's proposed scope of service arrangements with Baymark, described below, would instigate a lengthy dispute between the Commission and the firm.

¹¹ A disparity between users' and CPAs' perceptions about the parameters of an audit function to include responsibility for detecting material fraud. The group's recommendations eventually led to increased audit program procedures intended to identify fraudulent circumstances.

Coulson expressed concern that the SEC's accounting and reporting requirements were too complicated and costly. He stressed that depending on the historical cost model for financial institutions should be a matter of concern (*Financial Executive*, 1991).

Coulson ended his service at the SEC in January 1991, accepting a partnership in Ernst & Young (*JofA*, 1992). Subsequently, he served as a member of the AICPA's Special Committee on Financial Reporting (the Jenkins Committee) (Larson, 1994). Today he continues to direct that firm's independence compliance activities.

Walter P. Schuetze (January 1992–March 1995)

SEC Chairman Richard Breeden appointed Walter Schuetze to succeed Coulson (*JofA*, 1992). Breeden described Schuetze as 'a precise man. He chooses his words carefully and speaks in measured phrases. He does not, however, mince words' (Barrett, 1992, p. 102). A graduate of the University of Texas at Austin, Schuetze began his public accounting career at Eaton & Huddle, which subsequently merged with Peat Marwick Mitchell & Co. (now KPMG LLP) in San Antonio. As a KPMG partner, in 1963, he was assigned to the New York executive office. From 1973 to 1976, Schuetze served as a charter member of the FASB. He returned to the firm in 1976 and remained in public practice until his appointment at the SEC. While at

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KPMG, Schuetze was active in the profession, including a term as chairman of the AICPA's Accounting Standards Executive Committee (Barrett, 1992).

A proponent of expanding the application of market value accounting in the wake of the savings and loan crisis, Schuetze stated, 'While we have used historical-value accounting for a long time, I think in many ways market value is more relevant' (JofA, 1992, p. 18). In delivering the 2001 R. J. Chambers Research Lecture at the Great Hall at the University of Sydney, Schuetze (2001) recalled:

When I interviewed with Chairman [Richard] Breeden for the position of Chief Accountant in December 1991, it turned out that his and my thoughts on market value accounting were in sync. At least as far as bond portfolios were concerned. Chairman Breeden did not want to go further than the bond portfolio. I wanted to mark all assets to market, but in the early 1990s, I was glad to start with the bond portfolios of thrifts and banks. (p. 2)

Schuetze believed that the use of market values for assets and liabilities was desirable, especially for financial institutions.¹² He did not think 'the users of financial statements have been well served over the last 10 to 15 years' and that 'as a result . . . financial accounting and reporting have lost some of their credibility' (Barrett, 1992, p. 102). He advocated further, that 'financial statements that use historical cost to value stocks and bonds (as investments) simply had outlived . . . usefulness.' He noted that: 'Users . . . would benefit from current value accounting for debt and equity securities' and that 'We also need to measure loan impairments by using discount rates tied to current market interest rates' (Barrett, 1992, p. 102).

Relatedly the FASB responded to these concerns when the FASB (1993) issued SFAS 115 (*Accounting for Certain Investments in Debt and Equity Securities*) in May 1993 and SFAS 118 (*Accounting by Creditors for Impairments of a Loan—Income Recognition and Disclosures*) (FASB, 1994a) in October 1994, which was supplemented in April 1995 by the issuance of SAB 94 (*Recognition of a Gain or Loss on Early Extinguishment of Debt*) (USSEC, 1995) following substantial losses and financial structure concerns in financial institutions.

As chief accountant, Schuetze spoke out about Big Six firms posturing as to client pressures and standards setting. In particular, he 'chastised the Institute and Big Six accounting firms for pressuring FASB to abandon its controversial plan for requiring recognition of stock option compensation to employees' (*Accounting Today*, 1994, p. 5).

Schuetze (1993) argued 'the concept of an independent audit of the financial statements of enterprises that seek to raise money from the public is one of the cornerstones of the Securities Act of 1933 . . . The auditing function thus is of great importance to investors, the commission, and the general process by which corporations raise capital and conduct business affairs' (p. 40). Speaking at an AICPA conference in January 1994, Schuetze expressed concern regarding the independence of auditors, indicating 'it was very troubling that CPAs may have become cheerleaders for their clients on a number of accounting issues' (JofA, 1995).

¹² Schuetze's views on mark-to-market accounting are more fully explicated in his 2003 book on the subject.

Schuetze was also vocal in warning the profession against the appearance of conflicts of interest which could result from the trend of corporate outsourcing of a variety of services, including internal auditing. Schuetze noted that ‘the SEC would “question the independence” of external auditors who perform management or internal control functions for their audit clients’ (*Accounting Today*, 1994, p. 5).

Schuetze’s comments prompted the appointment of a special advisory group by the Public Oversight Board (POB) of the AICPA (*JofA*, 1995). The POB’s Advisory Panel on Auditor Independence (the Kirk Panel) was formed in February 1994. Donald Kirk, a charter member and former chairman of the FASB, chaired the three-member panel. ‘The panel was not an investigatory body: its work consisted of interviewing professionals and others who could contribute to a better understanding of the problem. However, it did review the specific cases that led to Schuetze’s criticism’ (Carmichael and Craig, 1995, p. 19). According to Kirk:

When approached to serve as chair of the panel, I was somewhat reluctant to undertake an investigative project of the facts surrounding the four cases that were the basis of Walter Schuetze’s criticisms. When we met, it became clear that George Anderson and Ralph Saul were of the same mind. We didn’t think those issues were a matter we should reinvestigate. We had a clear understanding with the POB that we were concerned with institutional relationships among standard setters, the profession, the SEC, and the business community to see if there weren’t ways to improve those relationships and enhance the objectivity of the auditing profession. We did not want to focus on transitory specific issues of the kind raised by the four cases underlying Schuetze’s remarks. We would use the points raised as a jumping-off point, but they would not be the central focus. We wanted to focus on longer-range, longer-lasting issues. (Carmichael and Craig, 1995, pp. 18–19)

The Advisory Panel also had available the OCA’s *Staff Report on Audit Independence* (USSEC, 1994). According to Kirk, the staff focused ‘on the rules of independence and what constitutes a conflict of interest between an auditor and his or her client’ (Carmichael and Craig, 1995, p. 19). This report stated:

The OCA believes that the combination of the extensive systems of independence requirements issued by the Commission and the AICPA, coupled with the Commission’s active enforcement program, provide to investors reasonable safeguards against loss due to the conduct of audits by accountants that lack independence from their audit clients. The enactment of detailed legislation or the promulgation of additional rules is not necessary. The OCA believes that further legislation or fundamental changes in the Commission’s regulation are not necessary at this time for the protection of investors. (Carmichael and Craig, 1995, p. 18)

On 13 September 1994, the Advisory Panel on Auditor Independence (1994) issued its report, *Strengthening the Professionalism of the Independent Auditor*. It identified the need for a stronger relationship between audit committees and the independent auditor so as to improve the overall financial reporting process.

The Advisory Panel’s report concluded: ‘independent judgments can be inhibited when the relationship between the auditor and management is too close. Shareholders and boards should expect auditors to challenge management’s views on accounting principles, disclosure practices and accounting estimates and to inform the board about how shareholders’ interests are affected by management’s

accounting choices' (*JofA*, 1994, p. 13). Citing litigation's damaging and costly impact on the profession, the report called on the SEC to take the lead in reducing the profession's exposure to unwarranted litigation. The report says a better legal environment would 'encourage the profession to analyse and learn from audit failures' (*JofA*, 1994, p. 13). However, it also cautioned that although tort reform is necessary, it alone would not be sufficient to enhance the 'integrity, objectivity and professionalism of the independent auditing function' (*JofA*, 1994, p. 13). The Advisory Panel therefore recommended 'the SEC and the POB should consider devoting resources to stay informed on a continuing basis about developments in the auditing profession and in the market for audit services . . . By having the facts, the SEC and the POB will be in a position to anticipate and take appropriate steps to strengthen auditor professionalism' (Carmichael and Craig, 1995, p. 20).

Among topics of technical accounting, Schuetze encouraged the FASB to address the accounting treatment for internal use software costs. Also, he asked the FASB's Emerging Issues Task Force (EITF) to provide guidance on provision for restructuring charges, because the SEC staff had noted increasing diversity in this area. This controversial topic remains, even today, as part of what has been called the 'cookie jar' reserve issue. Many years later, Schuetze (1999) made the following observation about such 'evergreen' issues:

Accounting for so-called restructurings has become an art form . . . The cover for these shenanigans is two 'consensuses' of the FASB's Emerging Issues Task Force that deal with recognition of liabilities on the occasion of a restructuring or a merger, namely EITF 94-3 and 95-3 . . .

I was Chief Accountant in 1994 when the Emerging Issues Task Force debated EITF 94-3. I pleaded with the EITF not to allow the recognition of liabilities today where there has been no past event, for example, the performance of services by employees or the receipt of goods from suppliers or the receipt of cash in return for issuing a put option, that establishes that the reporting enterprise has an obligation to lay out cash tomorrow. I made a speech about that on November 8, 1994 to the Financial Executives Institute. As I recall, I sent a copy of that speech to EITF members. In that speech, I pointed out the conceptual flaw in the EITF's approach and the practical consequences of that approach. Nine days later, on November 17, 1994, despite my pleas, the Emerging Issues Task Force said OK to the establishment of restructuring reserves.

What has happened since 1994? Well, my instinct in 1994 has been confirmed by practice. What has happened since 1994 is that general reserves, contingency reserves, rainy day reserves, and cookie jar reserves, now are in vogue for those who want to use them. Based on what I see in the Enforcement Division, there apparently is almost no limit to what ingredient may be included in the reserves or the amount ascribed to it. (pp. 1–4)

Derivatives accounting was another area addressed by Schuetze. 'During 1994, some registrants experienced significant, and sometimes unexpected, losses in market-risk sensitive instruments, due to, among other things, changes in interest rates and foreign currency exchange rates' (Hunt, 1996, p. 5). During this period, in October 1994, the FASB issued SFAS 119 (*Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments*) (FASB, 1994b). 'The SEC staff observed that while disclosures reviewed in 1995 were more informative than those reviewed in 1994, in part because of improved guidance provided by the FASB in SFAS No. 119, several significant disclosure issues remained' (Hunt,

1996, p. 6). In 1995 the Commission addressed these concerns by issuing temporary footnote disclosure requirements, and in 1997 FRR 48 (USSEC, 1997a), concerning derivatives, was issued.

Schuetze retired from the OCA in March 1995, but on 2 October 1997 he returned to the SEC as chief accountant of the Division of Enforcement (MacDonald, 1997). Schuetze quipped that he was returning to the agency because, ‘I just didn’t enjoy retirement as much as I thought I would’ (Rankin, 1997, p. 14). SEC Chairman Levitt stated, ‘We are truly fortunate that Mr Schuetze is returning to the Commission’ (Rankin, 1997, p. 14). ‘Mr Schuetze has tremendous depth and experience in all of the accounting issues that confront the SEC’s enforcement program. It is a great pleasure to welcome him back’ (*JofA*, 1997, pp. 9–10). In ‘Enforcement,’ Schuetze was responsible for policing accounting irregularities at publicly traded companies and investigating conflicts of interest within the auditing profession. Schuetze concluded his service in the Division of Enforcement in February 2000 (USSEC, 2000d). Today he continues to be active in areas related to SEC reporting and audits. In April 2002 he became a member of the board of Computer Associates International, a major NYSE company, at a critical time in that company’s dealings related to financial disclosures.

Michael H. Sutton (June 1995–January 1998)

Michael Sutton was selected as chief accountant in June 1995. As a Deloitte & Touche partner, his responsibilities in that firm during his thirty-two year tenure had culminated in being national director of accounting and auditing professional practice. Sutton accepted a position with the firm after he received his graduate (1963) and undergraduate (1962) degrees in accounting from the University of Tennessee (USSEC, 1997e).

After a series of increasingly responsible assignments, he became involved in profession-wide practice issues. Sutton was a member of the Emerging Issues Task Force of the FASB from 1980 to 1986. He served as the vice-chair of the AICPA’s Special Committee on Financial Reporting (the Jenkins Committee) from 1991 to 1994. He was a member of the FASB’s Financial Accounting Standards Advisory Council, working on such topics as mark-to-market and intangible asset accounting, disaggregated financial statements and income and cash flow statements, accounting for comprehensive income and segment reporting, and the international harmonization of accounting standards.

In its 1994 report, the Jenkins Committee recommended the implementation of an expanded model of corporate communication—the ‘business reporting’ model. This model specifies a variety of non-financial as well as financial information that a company should provide to help users with capital allocation and investment decisions about an enterprise. As vice-chair of the Jenkins Committee, Sutton was influential in directing ‘its research toward learning about “user’s needs” in financial reporting’ (Previts and Merino, 1998, p. 374). This ‘user need perspective’ was reflected further during his term as chief accountant with specific reference to individual investors as users. In 1996, he noted ‘any changes in our disclosure system . . . would need to be tested against our simple mission—that is, how the

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changes benefit the interests of investors’ (Fleming, 1996, p. 15). Referring to the Jenkins Committee, Sutton said that he was ‘struck by the high degree of consensus about the importance of nonfinancial and forward-looking information to investors and creditors as well as by the lack of consensus about what should be done and by whom’ (Fleming, 1996, p. 14).

Even before his term at the SEC, Sutton was an advocate of mark-to-market accounting for securities. While Sutton proposed that marketable assets be shown at market value, he believed that the unrealised changes in the value of such assets should not be included in current income, but should be shown in a new financial statement entitled Statement of Changes in Provisional Values (Sutton and Johnson, 1993). Speaking before the District of Columbia Bar Association in 1995, Sutton supported the mark-to-market model stating that mark-to-market accounting for derivatives ‘would bring the fair value of those instruments out of the footnotes and into the balance sheet’ (*American Banker*, 1995, p. 4). However, groups such as the American Bankers Association did not favour this approach, ‘saying derivatives are too diverse and complex for a simple mark-to-market accounting approach’ (*American Banker*, 1995, p. 4).

As noted, auditor independence is a core issue to the SEC and the OCA, and it was no different for Sutton. The Jenkins Committee had identified concerns

about pressures on auditor independence, and in September 1996 the United States General Accounting Office reported that ‘Despite actions taken by the SEC and the AICPA in the 1970s and the 1980s to strengthen auditor independence, questions of auditor independence stemming primarily from auditor/client relationships in providing audit and other services have continued into the 1990s’ (Sutton, 1997a, pp. 87–8). Speaking to members of the American Accounting Association in 1996, Sutton (1997a) stated that the ‘list of services that public accounting firms seek to provide has taken on new dimensions’ (p. 88). During the 1990s, there were economic arguments developed to support outsourcing of corporate services to be supplied by public accounting firms. Sutton (1997a) was concerned about this trend and stated, ‘the investing public and the public accounting profession would be better served if services that are designed to replace traditional management functions were provided only to nonaudit clients’ (pp. 89–90). Sutton believed that an independent auditor should not perform internal auditing functions. ‘While the issues are complex, and the solutions are not easy, it is clear that auditor independence is an issue that has serious implications for the image and stature of the public accounting profession—one that the leadership of the profession, including its self-regulatory processes, needs to address’ (p. 91). Accordingly, Sutton (1997a) stated:

If the public accounting profession is to continue its special relationship as the exclusive provider of auditing services to SEC registrants, the Commission and the investing public have a right to expect the profession to find ways to assure the public that the heavy responsibilities that go with the role of independent auditor continue to be met. I urge the profession to consider thoughtfully the enormous benefit that society has given it, and the privilege through self-regulation of preserving and enhancing that valuable franchise, and to weigh carefully the costs of losing public confidence. (p. 91)

In a 1997 interview, Sutton further observed:

There are two trends in recent years that the SEC has observed—trends that some fear could negatively impact auditor performance and auditor independence, the very linchpins to our financial reporting system.

The increasing complexity of the business and professional environment in which companies and their auditors conduct their affairs, including changes in the size and structure of the largest accounting firms.

The growing diversity of services that auditors of public companies are marketing to audit clients and the growing economic importance of nonattest services to the firms. (Craig, 1997, p. 16)

Sutton supported an enforcement action against KPMG Peat Marwick LLP (AAER 994) (USSEC, 1997d) regarding services being offered through a collateral entity related to the KPMG firm.¹³ The SEC claimed that KPMG, through an

¹³ On 21 January 2000, Robert G. Mahony, Administrative Law Judge (ALJ) ruled that KPMG committed an independence violation by auditing Porta, thereby violating Rule 2-02 of Regulation S-X and the Securities Exchange Act §13(a). Although Judge Mahony determined that KPMG had technically violated independence rules, he also ruled that the evidence as presented failed to establish that KPMG had recklessly engaged in improper professional conduct; therefore, no sanctions were ordered against KPMG (USSEC, 2000a).

arrangement with KPMG Baymark, had failed to comply with established standards of auditor independence in connection with its audit of the 1995 year-end financial statements of Porta Systems Corporation (Porta) and the preparation of the related audit report. An element which reflected the SEC's view was the belief that a firm controlled entity should not provide services to an audit client when the service was not appropriate for the firm per se to offer. The Baymark episode has proven to be a lengthy dispute (USSEC, 2000b). It would take until 2001 for the Commission to prevail in its own internal review (AAER 1374) (USSEC, 2001a), only to be further contested by the firm in the courts. In May 2002, a U.S. Appeals Court upheld the Commission's ruling (Mathewson, 2002).

In May 1997, the AICPA and the SEC jointly announced the establishment of an Independence Standards Board (ISB) as an effort to strengthen the private sector's ability to develop and approve audit independence standards. The ISB, consisting of eight members, four of whom represented the public and four drawn from the profession, had as its primary responsibility the establishment of independence standards for auditors of public companies (Craig, 1997).¹⁴ Among the ISB's objectives was the attempt to increase public participation in the establishment of independence standards and to enhance the public's perception of the independence of auditors of publicly owned companies. The ISB standard-setting process was open to the public and proposed standards were exposed for public comment (AICPA, 1997).

Sutton stated: 'this is a tremendously important development for the public, for the profession and for self-regulation. It offers an opportunity to take a fresh look at—and find solutions for—knotty issues that have become more and more challenging over the years' (Sutton, 1997b, p. 3).

Shortly after his departure from the chief accountant's position, the SEC issued FRR 50 (USSEC, 1998a)¹⁵ recognizing the ISB as the authoritative standard-setting body for auditor independence, but subjecting it to an initial review after a developmental period (AICPA, 1998a). This new entity faced the challenges of promptly addressing auditor independence issues in the current business environment or facing the prospect of direct SEC intervention and direct rule making in the future.

Sutton addressed other issues including business combinations. The SEC issued FRR 47 (USSEC, 1996) in October 1996, which called for streamlining disclosure requirements for significant business acquisitions. With this release, the SEC further harmonized financial statement disclosure requirements under 1933 and 1934 Act registration requirements.

Based on Sutton's recommendation, the SEC enacted FRR 49 on 12 March 1997 (USSEC, 1997b). This release met the provisions imposed by the Private Securities

¹⁴ A nine-member Independence Issues Committee, consisting of CPAs from firms that audit public companies assisted the Independence Standards Board.

¹⁵ FRR 50 was effective 26 March 1998.

Litigation Reform Act of 1995¹⁶ which was watershed legislation designed to reduce exposure to litigation risks from frivolous class action suits, and to amend pleading standards used to bring such actions. The law represented a climax to a decade long campaign to revise tort law, and had sufficient congressional support to become the only legislation which was able to override a veto by President Clinton during his two terms in office (King and Schwartz, 1997).

FRR 49 addressed Section 10A of the 1934 Act which ‘requires that each audit under the Exchange Act include procedures regarding the detection of illegal acts, the identification of related party transactions, and the evaluation of the issuer’s ability to continue as a going concern’ (USSEC, 1997b, pp. 1–2). Section 10A also codifies certain then-existing professional auditing standards regarding the detection of illegal acts by issuers and imposed expanded obligations on auditors to report in a timely manner to management any information indicating that an illegal act has, or may have, occurred. The auditor must ensure that the audit committee or board of directors is adequately informed with respect to an illegal act, as broadly defined by Section 10A, unless the illegal act is clearly inconsequential. The auditor is to report a client’s uncorrected illegal acts to the client’s board of directors, and to the SEC, if the company’s board did not do so.

In his speeches and writings, Sutton urged the International Accounting Standards Committee (IASC) to pursue more robust accounting standards for cross-border listings. In April 1996, the SEC released a statement of support for the efforts of the IASC which identified the following three key elements that the Commission felt are necessary for the IASC’s standards to gain SEC acceptance:

1. *A core set of standards* that constitute a comprehensive generally accepted basis of accounting,
2. Standards of high quality that result in *comparability and transparency* and provide for full disclosure, and
3. *Rigorous interpretation and application* of the accounting standards. (Sutton, 1997c)

Sutton also championed the need to account for and disclose fair value information about derivative instruments (Wilson and Rasch, 1998).¹⁷ This was a response to the derivative investments financial scandal that occurred in 1993 and 1994 (Levitt, 1996) in Orange County, California, which generated considerable Congressional interest in the disclosure and accounting for derivatives. In January 1997, the SEC expanded disclosure requirements by issuing FFR 48 requiring companies to disclose more about the accounting policies for derivatives in the footnotes of the financial statements. The new rules ‘expand existing disclosure

¹⁶ Applicable to publicly traded companies, the Reform Act (22 December 1995): (a) made significant changes toward preventing abuse in securities litigation under federal law; (b) introduced the concept of proportionate liability under the federal securities laws; (c) implemented safe harbours for the disclosure of forward-looking statements; and (d) imposed new responsibilities on auditors to detect and report illegal acts (15 U.S.C. §78, Section 10(b) of the Exchange Act of 1934 and SEC Rule 10b-5).

¹⁷ FRR 48-1 and 48-2 on Derivatives.

requirements to include quantitative and qualitative information about market risk inherent in market risk sensitive instruments’ (USSEC, 1997a, p. 2).

In December 1997, a press release announced Sutton would depart the SEC in the first month of the new year. Chairman Levitt stated that the fruits of Sutton’s labour, especially on international accounting standards, derivatives and auditor independence will be long lasting (USSEC, 1997e). Levitt further stated, ‘sound markets are the result of fair and rigorous accounting standards, which Mike has espoused and fought for throughout his career’ (USSEC, 1997e, p. 1).¹⁸

Lynn E. Turner (July 1998–August 2001)

Lynn Turner was chosen to succeed Sutton as chief accountant, effective 1 July 1998 (USSEC, 1998b). Prior to assuming his position as chief accountant, Turner

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¹⁸ According to the SEC’s Division of Public Relations, an acting chief accountant was not appointed to replace Sutton when he ended his term as chief accountant in mid-January 1998 (Roybark, interview with subject, 19 November 1999). However, Jane B. Adams, who was appointed deputy chief accountant by Sutton, spoke on behalf of the Office of the Chief Accountant from the time Sutton left the Commission until Lynn Turner effectively assumed the position of chief accountant in July 1998.

was vice-president and CFO of Symbios, Inc. of Fort Collins, Colorado (MacDonald and Beckett, 1998) and prior to that a partner in Coopers & Lybrand (now PricewaterhouseCoopers LLP), where he spent his career, with the exception of two years (1989–91) when he served as a Professional Accounting Fellow at the SEC (JofA, 1990).

Turner received a master's degree in accounting from the University of Nebraska and a bachelor's degree in business administration from Colorado State University (Reynolds, 1998). He co-authored a monograph case study entitled *Software Industry Accounting* and was a contributor to *Montgomery's Auditing*.

Turner's list of priorities as chief accountant were outlined at a joint meeting of the AICPA and SEC representatives, and included: international accounting standards and auditor independence (AICPA, 1998b). As to independence, Turner stated his hope that the ISB would enable 'engagement partners to make appropriate decisions about difficult accounting issues without the fear that their income or career will be jeopardized' (AICPA, 1998b, p. 4). Turner published an article in *Accounting Horizons* early in his term in order to identify his agenda and the particulars of the accounting issues therein. The topics identified ranged from factors influencing the audit decision making process, to evergreen issues of auditor independence, and differences between U.S. and international standards. Also listed among the thirty-eight specified topics were market risk disclosure requirements and a request to identify what financial data analysts use that are currently not provided in filings with the SEC. The item contained a clear message to the academic community. 'We therefore challenge accounting researchers to provide original research, citations, or other comments that can aid the Commission in carrying out its responsibilities and meeting many of the challenges that we describe in this paper' (Turner and Godwin, 1999, p. 294).

In 1998, the Commission decided, in part due to the administrative law issues involved in the Checkosky/Savin/Coopers & Lybrand case, that changes to the rules concerning due process relating to disciplinary actions about independence might be in order (Schuetze, 1998). In July, the Commission issued an exposure draft of its recommended revision of Rule 102(e) of its Rules of Practice under the Securities Exchange Act of 1934.¹⁹ The rule is the basis upon which the Commission regulates professionals who practise before it.

After a lengthy debate surrounding the proposed revision, the SEC issued a final version of Rule 102(e) under the Rules of Practice, effective 25 November 1998 (USSEC, 1998c).²⁰ In a speech in April 1999, Turner related the Rule 102(e) revision to determinations about independence:

¹⁹ Items 25 and 26 of Schedule A to the 1933 Act and Section 17(e) of the 1934 Exchange Act, 15 U.S.C. §78q, expressly require that financial statements be audited by independent public or certified accountants. These federal securities laws also grant the Commission the authority to define the term *independent*. Section 19(a) of the 1933 Act, 15 U.S.C. §77s(a), Section 3(b) of the Exchange Act, 15 U.S.C. §78c(b), Section 20(a) of PUHCA, 15 U.S.C. §79t(a), and Section 38(a) of the ICA, 15 U.S.C. §80a-37(a) grant the Commission the authority to define accounting, technical, and trade terms used in each Act.

²⁰ 63 *Federal Register* at 57164 (26 October 1998).

Because of the importance of an accountant's independence to the integrity of the financial reporting system, the Commission has concluded that circumstances that raise questions about an accountant's independence *always* merit heightened scrutiny. Therefore, if an accountant acts highly unreasonably with respect to an independence issue, that accountant has engaged in 'improper professional conduct'. (USSEC, 1998c, p. 8, as quoted by Turner, 1999b, p. 3)²¹

In 1999, COSO, the group charged with following up the Treadway recommendations, published a tenth anniversary study on audited financial statements and auditor independence (*Fraudulent Financial Reporting: 1987–1997*). The study provided a comprehensive analysis of fraudulent financial reporting occurrences investigated by the SEC since the issuance of the Treadway report.²² The study reported that senior executives were frequently involved in frauds relating to financial reporting.²³ In addition, the report concluded that boards of directors were dominated by management insiders as well as by directors with significant equity ownership but little apparent boardroom experience with other companies. The research findings identified two implications regarding the role of external auditors. First, the auditor must look beyond the financial statements to understand the risks unique to the client's industry; the management's motivation towards aggressive reporting; and the client's internal control (particularly, 'the tone at the top'). Second, the external auditor should recognize the potential for greater audit risk when the audited companies have higher risk board and audit committee governance arrangements (COSO, 1999).

²¹ The Commission's proposal to amend Rule 102(2) was prompted by a judicial decision by the U.S. Court of Appeals for the District of Columbia Circuit concerning the conduct of two accountants. The court ruled that the Commission's opinions in that case had not articulated clearly the 'improper professional conduct' element of the rule. To address the court's concerns, the Commission published for comment a proposed amendment to Rule 102(e) on 18 June 1998, and because of the significance of the issue of auditor independence, the SEC subsequently extended the comment period until 20 August 1998. The final rule amendment includes three types of conduct that result in violations of applicable professional standards: (a) knowing or intentional conduct, including reckless conduct; (b) repeated instances of unreasonable conduct; and (c) highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted. This provision covers a single instance of serious misconduct that may not rise to the level of intentional or knowing (including reckless) conduct (applies to professional standards—greater than ordinary negligence but less than recklessness—when an accountant knows or should know of a heightened risk [called the heightened scrutiny rule]). This revision was a direct result of the Checkosky II court's concern that the Commission had not clearly articulated its standard for determining when accountants engage in professional misconduct. This rule was not intended to cover all forms of professional misconduct and the Commission has separate statutory authority that is available to address and deter professional misconduct that is not encompassed by Rule 102(e), as amended in 1998.

²² The study analysed 200 randomly selected cases of alleged financial fraud investigated by the SEC, about two-thirds of the 300 SEC probes into fraud between January 1987 and December 1997. The study focused on AAERs that involved an alleged violation of Rule 10(b)-5 of the 1934 Securities Exchange Act or Section 17(a) of the 1933 Securities Act, given that these represent the primary anti-fraud provisions related to financial statement reporting. The focus of the study was on cases that clearly involved financial statement fraud (COSO, 1999).

²³ In 72 per cent of the cases the CEO appeared to be associated with the fraud. Eighty-three per cent of the frauds relating to the nature of the control environment involved the CEO or CFO (COSO, 1999).

As to financial reporting, Turner observed that ‘earnings management’ was a serious problem. He indicated that ‘in the first quarter of 1998, corporate write-offs, as a percentage of the reported earnings per share of the S&P Fortune 500 stock index, surged to 11 percent of reported earnings, their highest level in the past 10 years’ (Turner, 1999c, p. 2). In response to concerns about earnings management, the OCA sent a letter to a number of registrants who, in 1998, reported large charges for asset write downs, restructuring charges and write-offs of acquired research and development. The ‘letter identified required and commonly requested MD&A and financial statement disclosures that may be applicable to the registrant’ (Turner, 1999a, p. 5).

As to peer review, Turner (1999d) noted that:

A number of recent SEC enforcement actions have cited problems with the independence of accounting firms and their quality control systems . . . The globalization of the business, financial and capital markets have grown at an increasing pace in the twenty plus years since the current peer review process was established. Given that a U.S. based business may conduct and have a majority of its business overseas, doesn’t it make sense to reconsider the existing peer review rules that significantly limit the peer review procedures applied to the audit procedures actually performed by the firm’s international affiliates? (p. 7)

Turner also was attentive to increased pressures to review independence requirements.²⁴ For example, a 1999 study ‘found that many individuals interviewed believed that pressures on auditors have been increasing and are becoming problematic, and that auditors are developing a stronger interest in their relationship with management, perhaps at the expense of their responsibilities to shareholders’ (USSEC, 2000f, p. 93).²⁵ Turner (1999b) expressed the view that every auditor should adhere to the sound advice offered by Peter Drucker—‘Start with what is right rather than what is acceptable’ (p. 8). Turner (1999e) noted that the SEC over the years has taken enforcement actions against firms and their professionals for breaching some of the most basic independence rules such as investing in the client that they audit. The SEC sanctions of PricewaterhouseCoopers LLP (AAER 1098) (USSEC, 1999a) provided examples of the concerns the Commission was identifying, to include:

²⁴ In 1999, Big Five accounting firms received higher fees for MAS and other consulting services than for audits from approximately 600 audit clients (SEC Proposed Rule S7-13-00 Revision of the Commission’s Auditor Independence Requirements, July 2000).

²⁵ The Independence Standards Board sponsored a study by Earncliffe Research & Communications (Earncliffe Report to the United States Independence Standards Board: Research into Perceptions of Auditor Independence and Objectivity, November 1999). Earncliffe conducted interviews to assess the perceptions of different audiences about auditor independence. Earncliffe reported: ‘The large majority of interviewees in each segment (including auditors) have sensed that in recent years accounting firms have lost their preoccupation with audits, and become much more preoccupied with growing new areas of consulting revenues. Many felt that within firms, the psychic and financial rewards were tilted heavily towards the consulting side, and that auditors who wanted to be well compensated and respected by peers, needed to support the growth of non-audit functions. This perception was even shared by a fair number of auditors’ (Earncliffe Report, Note 10, p. 14, as quoted by the SEC Proposed Rule: Revision of the Commission’s Auditor Independence Requirements, 30 June 2000).

- In four instances, certain professionals owned securities of publicly-held audit clients for which they provided professional services;
- In thirty-one instances, individual partners and managers owned securities of publicly held audit clients (Turner, 1999b, p. 3).

The SEC's increasing activism on audit independence has its economic consequences. It was believed to have cost U.K. PricewaterhouseCoopers LLP (PwC) an audit worth £2 million (\$3.3 million), when Prudential (the insurers) dropped PwC because the SEC did not view the arrangement between PwC and Prudential as complying with the rules of auditor independence (*International Accounting Bulletin*, 2000).

During the 1990s, the media reported a number of alleged financial frauds.²⁶ Some argued that these reports were tabloid sensationalism, but others asserted that there was a basis for concern. The accounting profession's response to these issues included, in October 1998, the POB's establishment of the Panel on Audit Effectiveness, chaired by Shaun F. O'Malley, former chair of Price Waterhouse, LLP (now PricewaterhouseCoopers) (POB, 2000a). The Panel's final report on 31 August 2000 (*Panel on Audit Effectiveness—Report and Recommendations*) (POB, 2000b), contained a number of findings directed to three professional groups: audit firms, the SECPS Peer Review Committee and the AICPA.

Related to audit quality, Turner observed: 'It is critical to the capital markets that investors continue to be able to rely on effective and high quality audits to ensure the credibility of the numbers they rely on' (USSEC, 1999d, p. 1). In a speech delivered to the Panel on Audit Effectiveness of the Public Oversight Board, Turner (1999d) reviewed recent events that caused the SEC to question the effectiveness of audits and the risk-based audit approach:

It is clear, based on the evolution of the audit process over the last decade, that auditors have changed the nature of audit procedures they perform to rely more on analytical procedures rather than more traditional substantive audit procedures . . . These changes have resulted in the auditor obtaining a significant amount of audit assurance from inherent and internal control sources as well as management representations. You only have to look as far as the March 1999 report sponsored by the Committee of Sponsoring Organizations of the Treadway Committee [*sic*] (COSO) on fraudulent financial reporting to understand the problems with today's audits . . . The COSO report and recent enforcement cases raise questions about whether an audit model that allows the auditor to de-emphasize or eliminate specific types of audit procedures, for example use of external confirmations or observation of assets, is in the best interest of investors. (pp. 3–4)

Turner (1998a) also took action to address concerns about the subject of 'materiality'. In his 1998–1999 Audit Risk Alerts²⁷ letter to the AICPA, in the midst of the dot.com IPO market, he noted:

²⁶ The U.S. press published a number of negative articles, for example, 'Pick a Number, Any Number', 'Accounting Abracadabra' and 'Ten Ways Numbers Lie' (Turner, 1998b, p. 5 and Turner, 1999c, p. 2).

²⁷ Periodic correspondence outlining and alerting the accounting profession about the current audit risks detected by the Commission's OCA.

Familiar measures of materiality, for example, 5% of pre-tax income, may not be adequate in a marketplace with P/E multiples of 40, where missing the market's expectation of earnings per share by a penny can have significant consequences. In such an environment, management, auditors, and boards of directors should be concerned when known violations of GAAP are present in the financial statements.

The SEC staff believes that auditors must assess the qualitative factors important in determining whether information would be considered material to investors. The use of quantitative factors alone is not sufficient . . .

When considering issues of materiality, auditors of public companies are expected to consider guidance that is already provided in several important areas including court decisions, Commission rules, regulations and enforcement actions, as well as accounting and auditing literature. (p. 3)

Reflecting these challenging new concerns in a setting of unparalleled stockmarket activity, the OCA issued SAB 99 (USSEC, 1999b) in August 1999 which exhorted accounting professionals to assess materiality from a broader perspective and avoid over reliance on quantitative guidelines for setting materiality thresholds. The bulletin addressed abusive earnings management by public companies and the exclusive reliance on any percentage or numerical threshold in assessing materiality for financial reporting.²⁸

In a letter to the AICPA Director of Audit and Attest Standards in December of 1999 (Turner, 1999g), Turner re-emphasized the importance of the matters addressed in FRR 49 (USSEC, 1997b), particularly with respect to suspected illegal activities and auditors' responsibilities given the effects of the Private Securities Litigation Reform Act of 1995:

Auditors have a unique role and franchise . . . If auditors do not meet the expectations of the investing public and the public loses its confidence in the role performed by the CPA as an objective and independent third party, there will be irreparable harm done to the value of that role. Accordingly, the SEC staff reiterates the need for auditors to maintain their integrity, objectivity, and independence, and when necessary to make the tough calls on the tough issues. In making these calls, auditors should keep foremost in mind that the investing public is their client . . .

Congress clearly intended that Section 10A should result in the Commission receiving an early warning from auditors about their clients' illegal activities. Despite this intention, the Commission has received very few Section 10A reports. The General Accounting Office, at the request of Congressman John Dingell, currently is investigating why such a relatively small number of reports have been submitted to the Commission. The Commission encourages all auditors to review Section 10A and Rule 10A-1 and, when confronted with the proper circumstances, to provide the appropriate notice and reports. (Turner, 1999g, pp. 1-5)

On 22 December 1999, the SEC adopted new rules and amendments to its current rules concerning audit committee disclosures (USSEC, 1999e). Two of the reasons cited for the adoption of these new rules were the new and complex dynamics of the U.S. capital markets and the recognition of increasing pressure to

²⁸ Three SABs were issued in 1999, which specifically address abusive earnings management: SAB 99 (12 August 1999) deals with materiality; SAB 100 (24 November 1999) discusses restructuring liabilities and asset impairments issues; and SAB 101 (3 December 1999) provides guidelines for revenue recognition.

meet earnings expectations (USSEC, 1999e). Turner had expressed serious concern about inappropriate earnings management to the point of distorting the true financial performance of the company. Based on recent rules, an independent auditor must review the client's financial information prior to the filing of Quarterly Reports on Form 10-Q or Form 10-QSB with the Commission. These rules also require that companies include in their proxy statements certain disclosures about their audit committees and certain reports from their audit committees. The rules, effective 31 January 2000, stipulate that registrants must obtain reviews of interim financial information by their independent auditors for filing on or after 15 March 2000 (USSEC, 1999c).²⁹

The growing number of significant independence tensions between the Commission and the principal elements of the organized audit profession affecting the scope of services³⁰ prompted the OCA to propose new rules for auditor independence during 2000. This action by the SEC signalled that the ISB's effectiveness was going to be called into question and that its future was in doubt. By late 2001 the weight of the issues being addressed by the ISB was such that both the SEC and the AICPA would agree to end ISB operations. Before this action would occur, however, several events and actions took place.

In 2000, the SEC approved proposed amendments to update the rules governing auditor independence. The proposal contained over one hundred pages, which elaborated on scope of service, conflicts of interest and the modern business environment's impact on auditors and independence (USSEC, 2000f). The amendments identified four governing principles to guide in assessment of an auditor's independent:

- Having mutual or conflicting interest with an audit client,
- Auditing one's own work,

²⁹ In January 1999, the ISB adopted Standard No. 1, which specifies new disclosure rules concerning audit committee. The SEC recognized the ISB to provide leadership in improving auditor independence in FRR 50 (18 February 1998). The new SEC rules adopted on 22 December 1999 were intended to be used to assist the ISB in its work.

³⁰ Significant changes in the accounting profession that influenced the proposed changes included: (a) firms became primarily business advisory service firms (Management Advisory Services [MAS] is a subset of nonaudit services); (b) firms and their audit clients are entered into an increasing number of business relationships such as strategic alliances, co-marketing arrangements and joint ventures; (c) firms are diverting significant portions of their consulting practices or restructuring their organizations; (d) firms are offering ownership of parts of their practices to the public, including audit clients; (e) firms are in need of increased capital to finance the growth of consulting practices, new technology, training and large unfunded pension obligations; (f) firms have merged, resulting in increased firm size, both domestically and internationally; (g) firms have expanded into international networks, affiliating and marketing under a common name; (h) non-CPA financial service firms have acquired accounting firms, and the acquirers previously have not been subject to the profession's independence, auditing, or quality control standards; (i) firms' professional staffs have become more mobile, and geographical location has become less important due to advances in telecommunications and internet services; and (j) audit clients are hiring an increasing number of firm partners, professional staff and their spouses for high level management positions (Proposed Rule: S7-13-00 Revision of the Commission's Auditor Independence Requirements 17 CFR Parts 210 and 240).

- Functioning as management or an employee of an audit client, and
- Acting as an advocate for an audit client.

The basic principles offered a framework for analysing issues relating to auditor independence, in that actions inconsistent with one or more of the principles could result in a lack of auditor independence.³¹

In related matters during June 2000, the Commission announced that all of the then Big Five accounting firms agreed to participate in a voluntary ‘look-back program’ to address past violations of auditor independence rules.³² The program provided a safe harbour (a type of amnesty) from enforcement and certain other SEC actions for all but the most serious violations covered by the program. Turner stated that ‘This program will identify issues that will be helpful in developing improved systems, procedures, and controls to provide assurance of compliance with all independence rules in the future’ (USSEC, 2000e, p. 2).

As have all chief accountants since the inception of the Emerging Issues Task Force (EITF), Turner was an active observer of deliberations by the group. During 1999, the EITF reached consensus on a number of significant issues including those relating to the application of the equity method of accounting, accounting for financial instruments, and the appropriate reporting of subsequent events caused by the phenomenon of the year 2000. As with his predecessors, Turner supported the SEC’s Professional Accounting Fellow Program in which he had been a participant. Turner left the Commission in August 2001 to join the faculty at Colorado State University and serve as the director of the Center for Quality Financial Reporting.

SUMMARY

The SEC was formed seven decades ago. Today, as in 1934, the objective of the Commission ‘continues to be the protection of investors through the fair and orderly operation of the markets’ (Turner, 1999f, p. 1).

Since the issuance of ASR 4 in 1938, the SEC has recognized, and regularly supported, the private sector’s role in establishing and improving accounting principles relating to disclosure practices of public companies. As Commissioner Hunt (1996) noted, ‘the typical standard-setting activity of the SEC is oversight, rather than the drafting of new accounting principles’ (p. 4). Financial Reporting

³¹ After holding public hearings (USSEC, 2000g), the SEC issued on 21 November 2000 its final rule relating to the revision of auditor independence (USSEC, 2000h). Lynn Turner participated in these public hearings. Past SEC auditor independence revisions were made in 1983 (FRR 10, 25 February 1983) and 1998 (Rule 102(2) Rules of Practice).

³² The voluntary look-back program covered a period of at least nine months ending 31 March 2000. Each firm retained independent counsel to oversee a review to identify certain independence violations relating to ownership of prohibited financial interests in their SEC audit clients. The program did not cover violations that the SEC were informed of prior to the commencement of the program, nor does the safe harbour cover violations that took place during the review that the SEC is informed of after the completion of the program. Participating firms began the reviews on 15 June 2000 and the participating firms submitted their report of findings to the SEC in 2001.

Releases issued by the SEC are designed to supplement and/or amend FASB and other professional accounting standards. The SEC through the actions of its chief accountant has demonstrated that it will challenge, and on occasion supersede, private-sector accounting standards. The SEC's willingness to support the private sector has been with an understanding that it continues to monitor the results of private-sector standard setters and when necessary to exercise its statutory authority.³³ In April 2003 the Commission reaffirmed its support of the FASB under the criteria of Section 108 of the Sarbanes-Oxley Act of 2002, by issuance of FRR 70 (USSEC, 2003a). Under Sections 108–9 of the Sarbanes-Oxley Act of 2002, the SEC is also directed to approve a public fee funded budget to support the FASB's activities.

While many individuals, alone or by virtue of their offices, have contributed to the growth and development of the CPA profession during its existence, arguably no single group has influenced it more than those individuals holding the office of the Chief Accountant of the Securities and Exchange Commission. Augmenting the work of early SEC chief accountants (Previts, 1978), this article provides detail of how five recent chief accountants serving over the twenty-five-year period 1976–2001 have responded to this role in the capital markets. The article relates where and how OCA officeholders have kept watch over a domain of issues including auditor independence and scope of services, contributed to the standards-setting process, addressed global reporting concerns, and worked to deter poor reporting, fraud and internal control weaknesses over the past twenty-five years. What remains for future researchers to address is the task of assessing the impact of these individuals, and their office, in relative and comparative terms.

The political will to address and resolve the issues faced by the SEC is brought to balance at a point on the continuum of choices from market based solutions to those which are governmental mandates. At the present instant, the SEC senior staff appears to be responding to legislative initiatives that support a more substantial role for regulation (i.e., mandates). They refer to the passage of the National Securities Market Improvement Act of 1996 as a basis for much needed regulatory uniformity at the national level (Cutler, 2003, p. 1). Such a new view of Federalism has been reaffirmed in the Sarbanes-Oxley Act of 2002, by conferring greater powers to the SEC as a key capital market's oversight agency and by establishing a new national board to supervise and inspect those who conduct the audits of publicly held companies. The effectiveness and acceptance of this new regulatory regime is far from certain, and it may well be that in the not too distant future once again the public's appetite for market based and deregulatory solutions will prevail.

This article has set forth a background of facts regarding the events and activities that are identified with the terms of service of five persons who served as chief accountants of the SEC from 1976 to 2001. Improving one's understanding of the Commission and its accounting related activities established a basis for more

³³ Accounting authors have long recognized the political nature of the standard-setting process. Zeff expands on this theme in his 1971 lectures (Zeff, 1972).

effective instruction, research and participation in the duties and responsibilities which accountants seek to fulfil.

The record of issues outlined in this article provides support for future research and for particular assessments of individual chief accountants as well as for topics which transcend the entire period of SEC activity.

In concluding it seems appropriate to observe that our views about the commitment, professionalism and personal integrity of each of the five individuals whose terms of office we have recounted are the same. Each dispatched his responsibilities with the dedication, energy and competence expected while exhibiting commitment to public duty consistent with the traditions and expectations of the Office of Chief Accountant.

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