SEC Historical Society
Interview with Walter Schuetze
Conducted on February 14, 2006, by Robert Colson

WS: My mother, who is 91 years old, still lives close by that farm where I was born and raised.

RC: Your father worked the farm?

WS: Yes, he did.

RC: Was this farm in your family before?

WS: Yes, the farm was in our family starting about 1895.

RC: Where did you family come from?

WS: My father's side of the family came from Germany. My mother's side of the family, about four generations back, came from Ireland and Scotland.

RC: They were here in Texas during the Great Depression, when the SEC was formed?

WS: We were on the farm during the Great Depression and I remember vividly the Great Depression. We had no money whatsoever; we had chickens, sheep, goats, and cows and we could live off that, but we had no money.

RC: You were able to keep your farm during that time?

WS: Yes, the farm was inherited by my father and it was fully paid for when he inherited it, so the only cash outflow that he and my mother had were the real estate taxes and an occasional cash outflow to buy some wire or something like that to build a fence to keep the cattle in. But that was the only cash outflow that they had and the cash in-flow that they had was from the crops and from the cattle and sheep and goats.

RC: Do you have brothers and sisters?

WS: I have two brothers and one sister—one brother is now dead; he died about six months ago. I'm the firstborn and I'm 73. My brother is 62 and my sister is 60.

RC: Did you have a lot of responsibility for your brothers and sister when you were growing up?

WS: I had to sort of help them along. I had a lot of responsibilities on the farm. My grandmother had six cows, we had two cows, and I had to milk those cows morning and night.

RC: I am not that far removed from a Minnesota farm myself. The worst job in the Minnesota year was cleaning out the cow barn after the winter - character building.

WS: I had to do that, too. We had pigs and cleaning the pig sty was a job.

RC: I'm sure it was a job. Do you see ways that those early experiences affected your outlook on life and what you were to do in later life?

WS: My wife says that I am so cheap that I will not spend a dime. Growing up in the Depression, when there was very little money, has had a lasting impression on me that has made me so conservative. That's just part of my background and it continues to this day.

RC: You mentioned you went to a one-room schoolhouse. Do you recall anything that you excelled in there or something that interested you when you were in school?

WS: My first teacher was a man; in 1942, he joined the Navy to fight in World War II. The next teacher was an 18 year-old girl who had just graduated from Center Point High School; she came in and there were 25 children in that one-room schoolhouse. She controlled that bunch of kids and taught us reading, writing, and arithmetic. Of course, when she taught the seventh grade, the first grade had to listen unless they were sleeping, but everybody was taught reading, writing, and arithmetic at the same time. History lessons and geography lessons were taught to the entire twenty-five of us, and she was wonderful. She's still alive and I go visit her occasionally.

RC: Did she make a career out of teaching?

WS: She taught for about fifteen or twenty years, but then she had her own family. She married a farmer and they had a farm. They still have that farm.

RC: When you left that school and went to high school, was this a shock to you to get into a much larger group of people?

WS: It wasn't very much larger. The grade school that I went to had about twenty-five kids maximum and then the high school had about 100 kids maximum, so it wasn't that much different.

RC: Did you have to travel a long distance to get to the high school?

WS: It was seven miles from my house to the high school.

RC: How did you get there?

WS: The first year or so my mother and some of the other mothers carpooled and then we had a bus. We had a yellow bus. My brother and I rode that yellow bus to Center Point.

RC: Was your farm electrified or were you there when the Rural Electrification Project came through?

WS: We had no electricity until I was about twelve years old and then the Rural Electrification strung some electric wires out to the farms in my part of the world.

RC: When you left high school, was there anything in particular that you took with you, in terms of your intellectual background or interest, when you went off to college?

WS: When I was in high school, two of the teachers, Frank Gilliland and Grace Wallis, one taught Math and one taught English, took me under their wings. They had to go to teachers' training in the summer of 1949 and I had graduated in May 1949 and they took me along with them to east Texas to Stephen F. Austin State College. They took some courses there that they needed to keep their teachers' certificates up to date. I went and started college in the summer of 1949 at Stephen F. Austin State College in Nacogdoches, Texas. I was majoring in English; I was going to be an English teacher.

I spent a year and a half at Stephen F. Austin and then in September of 1950 I transferred to the University of Texas in Austin and started college there; I was majoring in English and minor(ing) in Foreign Languages. I was going to take a course in Spanish and that class was filled, so I couldn't get into it; there was a class in Russian language that was open and so I enrolled in that, and I started taking Russian and I liked it very much. In January 1951, the Korean War—it was the called the Korean Conflict at the time—was in full throttle and I was at the age where I was close to being drafted into the Army.

So I decided that I would instead enlist in the United States Air Force, which I did in January 1951. As soon as I got into the service and had finished basic training, the Air Force decided that, with my small background in Russian language, I should go to the Army Language School at the Presidio in Monterey, California. I was shipped to Monterey, California to the Army Language School and I spent six months learning basic Russian. I finished that in the summer of 1951 and I was transferred back to Kelly Air Force Base outside San Antonio and I began to teach very elementary Russian to new recruits.

Subsequently I was transferred Chicksands, England. I was in the Security Service and I was assigned to a base where we were monitoring the Soviet Army and Air Force in East Germany and Poland and all of the Eastern European countries. I was stationed there for about three or four months and then a new base was opened in Scotland, north of Edinburgh about 100 miles, a small Royal Air Force Base called Edzell, E-d-z-e-l-l, where we had established a new directional finding station.

There were fifteen of us situated at this Royal Air Force Base and we were monitoring the Soviet armies and air forces from Scotland. There were similar bases in England and Spain and West Germany and France. I did that until the summer of 1955. And while I was there, I met and married a Scottish girl by the name of Jean Skinner. She's still my wife some fifty-one years later. Come the summer of 1955, I had spent my required four plus years in the Air Force, so I left the Air Force and went back to school at the University of Texas at Austin.

While I was in Scotland I had read an article, I think it was in *Time* magazine, about accounting. That article intrigued me, so when I went back to the University of Texas at Austin, I decided to go into accounting. I took my first course in accounting there in September of 1955 under Dean John Arch White. Dean White had written the book that we used and there were maybe 200 of us in the elementary accounting class that Dean White was teaching. I loved it; it was fascinating and I was hooked on accounting. Then I took cost accounting under George Newlove, who had written a book. I took consolidations under Charles Zlatkovitch, who had written a book. I had another course under another professor who had written a book and right now I do not remember his name. But in any event, I was hooked on accounting and I loved it and I still love it today.

RC: So you had some of the luminaries of the early accounting professors.

WS: Glen Welch was the other one. And those four professors were at that time at the University of Texas. They were luminaries in the accounting field. I got my BBA, Bachelor of Business Administration, with a major in accounting, in the summer of 1957. In the fall of '56 and in the spring of '57, I interviewed prospective employers; I interviewed Ford Motor Company, General Motors, and I think five of the then Big-8 accounting firms and an accounting firm here in San Antonio by the name of Eaton and Huddle. All of them made me an offer but I decided to join Eaton and Huddle. It was a small firm, some thirty to thirty-five partners and staff. The reason I joined that firm as opposed to one of the then Big-8 firms was that I thought I would get a more varied experience with the small clientele here in San Antonio, and be able to work closer to the partners in the firm than I would in a Big-8 firm.

So I joined Eaton and Huddle. The lead partner in Eaton and Huddle was Marquis Eaton and he died in the winter of '57, spring of '58—I don't remember exactly when he died. When he died, Eaton and Huddle decided to merge with what was then Peat, Marwick, Mitchell & Co., now KPMG. I spent from 1958 until the summer of 1963 here in San Antonio with Peat, Marwick.

In the summer of '63, Peat, Marwick formed what was then called and is still called its Department of Professional Practice in New York City in its executive office. There were two partners in that department at that time, John Peoples, who had been a member of the Committee on Accounting Practice and at that time was a member of the Accounting Principles Board, and another partner by the name of George Shepherd and four managers, three newly minted managers including me; there was a manager from Philadelphia and a manager from Los Angeles and me from San Antonio, and another old-time manager and the four managers and the two partners were the beginnings of Peat, Marwick's Department of Professional Practice.

As I understand it, the Department of Professional Practice now in 2006 has about 125 partners and managers in New York City and some partners and managers in other cities around the world—in London, in Paris, in Tokyo - so that the Department of Professional Practice has grown very large. In the summer of 1963, I transferred from San Antonio to the executive office in New York in the Department of Professional Practice. What the Department of Professional Practice did in its early days was write accounting manuals, audit manuals and SEC manuals. Any operating office that had a particular accounting or auditing problem would communicate with the Department of Professional Practice and together we would try to solve the problem that the operating office had.

That was probably 50 percent of our workload. The other 50 percent was writing manuals, writing information letters that we would send out to the operating offices alerting operating office partners and managers and personnel to this particular accounting issue, that particular accounting issue, this particular audit issue, that particular audit issue—in other words, we were communicating with the operating office partners to keep them as up to date as possible. One of our jobs in the Department of Professional Practice was to be aware of what the Securities and Exchange Commission and its staff were doing, what the New York Stock Exchange and its staff were doing and promulgating those issues to the operating offices. Peat, Marwick back then had a policy that all financial statements filed with the SEC, whether they were included in a registration statement or in a periodic filing like a 10-K, had to be reviewed by what the firm called an SEC reviewing partner.

There were 100 or so SEC reviewing partners in the firm. One of the things that we did in the Department of Professional Practice was keep those 100 or so partners up to date on what the SEC was doing and what kind of issues it was communicating to the investing public.

I did that for about seven years in the Department of Professional Practice. But one of the things that I did while I was in the Department of Professional Practice was work with John Peoples' successor on the Accounting Principles Board, a partner by the name of Joe Cummings. Joe had been a New York Office operating office partner and when John Peoples retired, Joe Cummings moved into the Department of Professional Practice to become the head of that department. He became a member of the AICPA's Accounting Principles Board. That was a pretty big job for Joe Cummings, so he enlisted my help to work with him on Accounting Principles Board matters. I would go to APB meetings with Joe and act as his technical advisor; there were twenty-one members of the Accounting Principles Board in those days, and seven or eight or nine of those members had technical advisors who went to the meetings with them and helped them working on Accounting Principles Board matters.

I did that for about five years with Joe Cummings; I worked with the Accounting Principles Board on APB Opinions Number 9, 10, 11, 12, 13, 14, 15, 16, 17, and 18. Come the summer of 1970, Cummings insisted that I go out to an operating office and deal on a daily basis with clients to get experience dealing as a partner face-to-face with clients. In the summer of 1970, I transferred to Peat, Marwick's Los Angeles operating office, handling audit clients such as City Investing Company, Western Airlines, Bourns, Inc., Max Factor, Motel 6, and a savings and loan the name of which right now I can't remember, so I had a stable of clients in the Los Angeles office.

In addition to handling those clients as an audit engagement partner, I was also an SEC reviewing partner for the West Coast of the Peat, Marwick firm. There were two other West Coast partners who had SEC reviewing responsibilities in addition to me. Any time a client on the West Coast would file a registration statement or would file a 10-K, one of us three SEC reviewing partners had to review that particular filing. So that was part of my duties on the West Coast.

While I was in the Los Angeles office, I happened to be here in San Antonio playing golf at Oak Hills Country Club when the manager of the club came out to the twelfth or thirteenth hole and said that I had an important phone call at the club and that he recommended that I get on the golf cart and go in and take this phone call. The phone call was from Ralph Kent, who was the Chair of the Financial Accounting Foundation, and Ralph Kent invited me to become one of the Charter Members of the Financial Accounting Standards Board. I got that phone call in November of 1972; the Financial Accounting Standards Board had been formed by the Financial Accounting Foundation and the Financial Accounting Standards Board had been formed as a result of recommendations by a study group led by Frank Wheat.

Frank Wheat was a partner in a West Coast law firm, the name of which I don't recall at this moment. That study group had been created by the American Institute of CPAs in late 1970 or '71 to try to determine how best to set accounting standards. The Accounting Principles Board had fallen out of favor with the investing public and with the corporate community in general, so the question arose how best to set accounting standards.

So the AICPA created two study groups. One was headed by Robert Trueblood, who was the Senior Partner of Touche Ross & Co. And the Trueblood Study Group looked at how best to articulate and verbalize the underlying concepts of financial accounting and reporting. And the other study group was chaired by Frank Wheat, who was a former SEC Commissioner, and Frank Wheat's charge was to look at how best to set accounting standards.

The Wheat study group came up with the idea of creating the Financial Accounting Foundation and the foundation had two objectives. One was to raise money for standard setting and the other was to select the members of what was to be called the Financial Accounting Standards Board. There were to be seven members of the Financial Accounting Standards Board; that first Board was chosen by the foundation which was headed by Ralph Kent. The first chair of the Financial Accounting Standards Board was Marshall Armstrong who had been the chair of the old Accounting Principles Board. There were seven charter members of the Financial Accounting Standards Board and I was one of those charter members.

In the spring of 1973, my family and I moved from Los Angeles to Southern Connecticut where the newly formed Financial Accounting Standards Board was located. The first Board operation was in Stamford, Connecticut. We started business as I recall it in March or April of 1973.

RC: When Ralph Kent spoke to you, what were his compelling reasons that he wanted you to be one of them?

WS: Marshall Armstrong had told Ralph - Marshall and Ralph are both now dead, Marshall just died about a year ago—that I had an encyclopedic knowledge of all of the written financial accounting standards and that I would be a good choice for the newly formed Financial Accounting Standards Board, and that was the reason that Ralph gave me when he called me and suggested that I be one of the charter members.

So March, April of 1973, the newly formed Financial Accounting Standards Board commenced operations. Our first chore was to set our first agenda and that took us maybe two or three months to do. We spent a lot of time working on that first agenda. We had almost no staff at that time. JT Ball, who had been at the American Institute of CPAs and was one of the technical staff at the AICPA, had been hired by Marshall Armstrong to be one of the staff. He and Paul Pacter both had come from the AICPA. Marshall Armstrong and each of the Board members was to have his own technical advisor to help advise that Board member on what to do in setting the new financial accounting standards. I hired James McNeal who had been a professor at Fordham; he joined the staff of the Financial Accounting Standards Board as my technical advisor.

Because we had no staff, the individual members of the Board had to run individual projects and the short straw that I drew was accounting for contingencies, which developed into what is now Financial Accounting Standards Board Statement Number 5. Jim McNeal and I wrote the discussion memorandum for that project; we wrote the exposure draft and we wrote the final standard. When we got around to the final standard, JT Ball had quite a hand in writing that standard.

Don Kirk, one of the other Board members was in charge of the project on foreign currency translation. Robert Sprouse was in charge of the project on research and development and Arthur Litke was in charge of the project on segment reporting. John Queenan was in charge of the project on materiality. John had been the senior partner—now it would be called Chief Executive Officer—of what was then Haskins and Sells. Marshall Armstrong didn't have a project specifically assigned to him. He was mother-hen(ing) all of these projects by looking over everybody's shoulder.

I remained as a member of the Financial Accounting Standards Board until the summer of 1976 when I decided to leave the FASB. The reason I decided to leave is along the following lines—I have been a lifelong ardent supporter of mark-to-market accounting. When the Financial Accounting Standards Board was formed I knew that mark-to-market accounting could not be done immediately, but I was hopeful that the newly created Board could move toward mark-to-market accounting for assets and liabilities.

Our first crack at mark-to-market accounting was in FASB Statement Number 12, which was accounting for marketable securities. Three of us wanted to mark all securities to market; that was Bob Sprouse, Art Litke and me. However, we needed five votes to issue a standard and Armstrong and Queenan would not yield and I finally decided that I would bite my tongue and not dissent to what ultimately became FASB Statement 12, which was not mark-to-market but which was lower of cost or market based on a portfolio idea.

That experience so frustrated me that I knew that Board would not get to mark-to-market accounting for a long time because four of the members of the Board were firmly in the camp of historical costs. And I just didn't see that we could move toward mark-to-market accounting so long as we had that mindset amongst the majority of the Board members, so I decided to leave and go back to public accounting.

When I left KPMG in 1972—'73 to go to the FASB, I had to sever all ties with KPMG so I had no contract or understanding that I would go back to KPMG. It just so happened that, in the summer of 1976, the partner at KPMG who was in charge of what was called the accountingp group – George Vogt - had a heart attack and he was quite ill. KPMG needed somebody with my skills and background to be in charge of the accounting group in the Department of Professional Practice, so in June 1976 I went back to KPMG in the Department of Professional Practice in New York in the accounting group to run that particular operation.

What that operation entailed was writing accounting manuals, keeping accounting manuals up to date, writing information letters to the operating offices, being alert to what the SEC was doing, incorporating that into the accounting manuals and the like. In addition, I had one audit client responsibility in the New York operating office, and that was a client by the name of Texas Gulf Sulphur, that was a sulphur mining company—copper mining company and had other mining operations in the United States and Canada.

In addition, I was an SEC reviewing partner; I was a member of the AICPA Accounting Standards Executive Committee for seven or eight years; and I was the Chair of the Accounting Standards Executive Committee of the AICPA for three years and that involved working with the FASB's Emerging Issues Task Force, working with the SEC staff, working with the staff of the Federal Reserve Board, the Federal Home Loan Bank Board, the Comptroller of the Currency and the like.

RC: If we could come back for just a minute to your time at the FASB - looking in hindsight now because it's been over thirty years, what is your assessment of FAS Number 5?

WS: When you read FASB Statement Number 5, the words look good, it sounds good, but it does not work in practice. The SEC staff and the FASB and the International Accounting Standards Board are very, very hot on this idea of writing principles based standards. FASB Statement Number 5 is a principles-based standard, but it does not work in practice. If you look at how banks recognize and measure bad debt losses you will see that practice is scattered from—maybe not from A to Z, but surely from C to T. If you look at the way insurance companies establish loss reserves, it is all over the map. If you look at the way companies establish what is called in practice cushions for Federal income tax liabilities, that practice is all over the map. If you look at the way companies recognize liabilities for claims from outsiders, for example for bodily injury, that practice is all over the map.

So FASB Statement 5 looks good, it reads good, but it does not work in practice. I have said this now for a long, long time, and I know how to fix this problem and it involves marking everything to market and getting outside valuation experts to give their opinions on the market price of assets and liabilities, and putting those outside valuation expert opinions into SEC filings of registrant issuers.

RC: Walter, you mentioned when you started on Statement 12 that you had a long commitment to fair value. Where did that first come up in your career?

WS: When I was at the University of Texas, I had been thinking about mark-to-market accounting, although it was not ever mentioned in any of the classes that I had there with the professors. And then when I got to Eaton and Huddle here in San Antonio we young staffers during the lunch hour would talk about various accounting issues, various auditing issues, and I was the loan proponent in the office of mark-to-marketing accounting. I got more and more fascinated with mark-to-market accounting when I was working on one particular client here in San Antonio that had been involved in a merger, and it was a merger of two oil and gas companies and I was working on the financial statements and the underlying audit and I remember pushing numbers around on yellow working papers, and I thought to myself, what am I doing?

The owners of this company were some absentee owners in Holland and I thought to myself these owners do not care at all about these historical cost numbers; what they care about is the value, the number of oil and gas barrels that are probable reserves, the number of MCF, of natural gas that are probable reserves and the value of those reserves. They don't care at all about these numbers that I am pushing around on yellow working papers to come up with the historical cost financial statements. It became clear to me that historical costs just had very little relevance at all to investors. What could you do with that number?

Maybe it had some relevance in as much as that might coincidentally be the tax basis of the asset, so if you sold the assets you could figure out what your taxable income might be to deduct the tax basis from the proceeds of sale, but that was the only relevance of the historical cost number and what those owners in Holland were interested in was what were the reserves and what was the value of those reserves, and to this day, sitting here in 2006, I continue to believe that historical cost had very, very little relevance and that mark-to-market accounting is absolutely necessary in order to adequately inform shareholders and investors.

Imagine that you're John D. Rockefeller and you have billions of dollars to invest and you have a smorgasbord of financial information from which to select in order to make investment decisions. Would you choose historical costs, would you choose historical costs minus depreciation, would you use reproduction cost new minus depreciation, would you use the estimated price at which you could sell the asset in the marketplace if you had that smorgasbord of information? Which piece of information would you select if you were John D. Rockefeller and you had millions of dollars to invest? It's clear to me that the only piece of information, the only datum that would be relevant would be market value—what you could sell the asset for to another person in the marketplace.

And the Chartered Financial Analyst in October of 2005 published a paper in which they recommend to the Financial Accounting Standards Board and the International Accounting Standards Board that mark-to-market accounting be substituted for historical cost accounting. And it's clear to me that the chartered financial analysts have got it right.

RC: There's one other event that occurred during your early days at the FASB I'd like you to comment on. That has to do with the SEC's issue in ASR-150 that narrowed so dramatically the scope of substantial authority for accounting standards. You were on the Board when that went out; what was your reaction to that then and what is your reaction to that now?

WS: Well my reaction to it when it was issued in 1976 was that it—

RC: Seventy-six…?

WS: No; it was…

RC: Seventy-three.

WS: —was that it was the SEC's way to put the mantle of authority on the FASB and said here gentlemen—here is your mantle of authority; you all run with it. You all set the standards. I was quite pleased with that at that time, but later on when I got to the SEC as Chief Accountant it was—it—and I'm getting ahead of myself here—but it really restricted me as Chief Accountant because what the ASR 173 did was it limited what the SEC could do without then undercutting its support for the FASB.

ASR 173 was a concrete foundation with the FASB on top of it sort of like the Statue of Liberty and it was Sandy Burton and the SEC who poured the concrete foundation and put the FASB on top of it and said okay, gentlemen, you all set the standards. And when I got to the SEC it became clear to me that I could do very little as Chief Accountant or the SEC could do very little without chipping away at that foundation that the SEC had poured in concrete in 1973.

RC: Did you see any problem with the separation of disclosure on the one hand that stayed with the SEC and recognition and measurement and on the other hand that went to the FASB?

WS: No; I didn't see a problem with that. FASB Statement 57 which I had a large hand in writing, because when that was issued I was Chair of the Accounting Standards Executive Committee, and I helped write Statement 57 sort of behind the scenes as it were, and Statement 57 is just a disclosure document. And the FASB Standard on Segment Disclosure is just a disclosure document. And FASB Statement 107 on Fair Value of Financial Instruments is just a disclosure document, so no; I don't see that as a problem.

RC: Now I suppose that during the course of this interview you're going to have a lot more to say about mark-to-market accounting and would you like to continue on that now or would you like to pick up with your more historical narrative?

WS: Let me just proceed on the historical narrative for just a minute. It was 1976 when I left the FASB and went back to KPMG and from '76 I was Chair of the Accounting Standards Executive Committee and a member of the Accounting Standards Executive Committee after 1976. We had the savings and loan crisis in the late '70s and then in the 1980s and I was very, very much involved in that as a partner of KPMG and as a member of the Accounting Standards Executive Committee. I chaired a Task Force at the AICPA on accounting for a particular kind of asset that the S&Ls owned and I got very deeply involved in accounting for financial instruments and accounting for derivatives.

The savings and loans had been limited over the years to a particular kind of investment and that was a standard 30-year mortgage loan. And the savings and loans had been limited in the way they raised their funding for those 30-year mortgage loans to the local community. And then in the late '60s or early '70s—sometime in there, the S&Ls—Congress raised the insurance limit from $40,000 per saver to $100,000 and allowed for the brokerage of savings accounts.

So instead of raising money just in their own backyard, savings and loans could raise money through the likes of Merrill Lynch and other brokers. The first Arab oil embargo was 1973; the second Arab oil embargo was 1976. The result of the second Arab oil embargo was that inflation took off in the United States. Interest rates began spiraling upward and inflation took off. Savings and loans had negative spreads in that their cost of money kept going up but the interest rate on their investments—the thirty-year mortgage was fixed and so there was a—a negative spread; they were investing the money at 8 percent and paying out 11-12 and ultimately as high as 18, 19, 20 percent. The prime rate got as high as 21 percent I believe somewhere in the 1970s.

RC: 1978, 1979.

WS: The S&Ls had to find another way to invest their money. Congress did the S&Ls a favor by allowing them to essentially invest in land, so the S&Ls began to make what became known as acquisition development and construction loans, so-called ADC loans. The developers had virtually no money of their own in projects and the S&Ls had invested all of their money in the ADC projects. But the interest rate on the ADC projects, at least nominally, were higher than the interest rates on the savings deposits, so there was a positive spread. The problem was that the S&Ls were not collecting any money from the developers until the projects were sold.

I was the accounting group partner at Peat, Marwick and I was very much involved in the accounting for these ADC loans. Peat, Marwick had a huge bulk of the S&L practice in the United States. We were the auditors to savings and loans having approximately 45 percent of all the depositors in the United States, so we were the leader in the auditing profession for the savings and loans. In February of 1983 I issued an internal memo within KPMG Audit Partner Letter to the effect that our clients no longer could recognize income on these ADC loans until the asset had been sold and cash collected. Our clients screamed bloody murder. The other accounting firms thought that I had left my senses—that I was daft; the SEC and the other regulators were taken aback by the Peat, Marwick action.

But we held our ground and continued to insist that our clients could not recognize income until the projects had been sold and cash collected. Well that got me very much involved with the Federal Home Loan Bank Board, with the SEC, and with the AICPA, and I was out making a lot of speeches about that and our clients were absolutely furious with me. My wife had a separate telephone line installed in our house so that I could get calls from partners and clients at home and they were calling night and day about accounting for ADC loans.

Peat, Marwick held its ground and would not allow the recognition of income on the ADC loans. About two or three years later the AICPA and the SEC and the Federal Home Loan Bank Board came around to that same view. It was that investment in those ADC loans that caused the S&Ls in effect were doubling down and they just lost money hand over fist on ADC loans. And it was that investment and the fact that S&Ls and banks and insurance companies were continuing to carry their bond investments at cost instead of market that caused huge losses for the S&Ls that were not recognized and ultimately the Federal Savings and Loan Insurance Corporation had to bail out the S&Ls and the costs to the American taxpayer was huge—absolutely huge, the order of magnitude—$300,000,000,000-$400,000,000,000.

Well the SEC recognized that this was a major, major problem. When the first President Bush was elected he appointed Richard Breeden as Chair of the SEC I guess it was 1988—'89. And Breeden recognized the problem that the S&Ls had as a result of their accounting for ADC loans and their accounting for bonds, so he prepared testimony for the Congress in 1990 on accounting for bond portfolios and that testimony which was cleared by the entire SEC Commission said that savings and loans and other holders of bonds should mark those bonds to market, and that testimony was given by Chairman Breeden in the fall of 1990.

At approximately that time the SEC's Chief Accountant who had been Ed Coulson left the SEC and joined the accounting firm of Ernst and Young in New York and so there was a vacancy at this Chief Accountant's position at the SEC. In November, December 1991 I applied for the position of the Chief Accountant at the SEC. When Richard Breeden interviewed me, it was clear to him that his views on mark-to-market accounting and my views on mark-to-market accounting—at least insofar as bond portfolios were concerned - were one in the same.

So Chairman Breeden appointed me as Chief Accountant of the Commission and I joined the Commission staff in January 1992 as Chief Accountant.

RC: As I recall, after Ed went to E&Y, there was an Acting Chief Accountant?

WS: There was an Acting Chief Accountant; it was George Diacont. He had been attending—well the Chief Accountant always attended meetings of the Emerging Issues Task Force.

RC: Now Ed had been at the Commission for sometime, had he not?

WS: Ed had been a longtime staffer at the Commission.

RC: And didn't he follow Clarence?

WS: Clarence Sampson was appointed to be a member of the Financial Accounting Standards Board; Ed Coulson followed Clarence Sampson as the Chief Accountant of the SEC.

RC: And Clarence followed Sandy Burton?

WS: Clarence followed Sandy Burton.

RC: Who came in after Andy Barr?

WS: After Andy Barr.

RC: So you were really the first Chief Accountant that had come out of one of the accounting firms?

WS: I guess that's right, although Carmen Blough may have practiced in one of the accounting firms for a little while. But you're right, as a practical matter, I was the first practicing accountant to be Chief Accountant at the Commission and at that time I was virtually the only accountant who was promulgating mark-to-marketing accounting, but Richard Breeden's views on that and my views on that were one and the same.

Breeden appointed me as Chief Accountant in January of 1992. I was pushing the banking industry, the S&L industry, and the insurance industry to mark their bond portfolios to market. I was pushing the Financial Accounting Standards Board to issue a standard that required mark-to-market; I was the SEC's foot soldier for getting banks, insurance companies and savings and loans to mark their bond portfolios to market. I went to meeting after meeting after meeting of bankers and they were absolutely furious with me. They did not want to mark their bond portfolios to market. It entirely took away their flexibility; they could manage their earnings with their reserve for bad debts and their bond portfolios and my requiring them to mark the bond portfolios to market took away half of their flexibility and they were absolutely furious with me, and they were furious with Richard Breeden too.

RC: I imagine they were. What was the position of the other Commissioners on the mark-to-market accounting? Was this something that was a concern to them?

WS: No, all of the Commissioners had agreed to the September 1990 testimony that Richard Breeden gave on Capitol Hill that said that bond portfolios should be mark-to-market, so all of the Commissioner were behind that particular idea.

RC: What was the nature when you were at the Commission of your relationship or action as Chief Accountant with the Chairman of the Commission and also Commissioners? Did you meet with them regularly?

WS: When I was Chief Accountant, there was a meeting every Monday morning of senior staff and Richard Breeden. I would be there along with all of the other senior staff and then I would meet with the other Commissioners periodically to discuss various issues that were on the table at that particular time. Mark-to-market was one of the issues that I was constantly discussing with the other Commissioners because they were getting complaints from banking groups, from individual banks. All of the Commissioners in effect have an open telephone line and an open door and constituents are always ringing up and are always writing letters and are always coming into talk about the issues of the day, so the individual Commissioners are very well in-tune to what is happening in the real world.

I would meet with other Commissioners once a month. The Chief Accountant of the Commission also is involved in the enforcement actions of the Commission and so I was meeting with other Commissioners on enforcement issues. Generally about once a week there is a Closed Commission Meeting dealing with enforcement issues and before the Closed Commission Meeting, the Chief Accountant and the person in charge of the

Enforcement Division and individual lawyers and accountants in the Enforcement Division would meet with the individual Commissioners to go over the enforcement issues of that week, so there are fairly regular meetings with the individual Commissioners that I had as Chief Accountant.

RC: Who were some of the people that were on the Chief Accountant staff when you were there?

WS: I'm having a senior moment—well amongst the staff that I had there was Bob Burns, who is a lawyer; John Riley, who was the Deputy Chief Accountant; John is out in practice now—well he went with Arthur Andersen. I don't know where John is now; I haven't heard from John in a long time. Mike Keegan was involved primarily in the Enforcement end of what the Office of the Chief Accountant does. I had three professional accounting fellows from the Public Accounting Firms and two academic fellows; one was Tom Linsmieir and the other one was Bob Rouse and there were a couple of other—Larry—I can't remember Larry's last name—Larry has been there a long, long time and I think he's still there, but there were not a lot of staff in the Office of the Chief Accountant. It was a lean operation.

RC: What was the typical workday like? When did you come iin the morning and what did you do during the morning and then what did you do at the lunchtime? How late did you stay?

WS: I was on staff at the SEC as Chief Accountant and then as Chief Accountant in the Enforcement Division for almost six years and I have to tell you that going to work at the SEC every morning is like going to the theater. You know that you're going to have fun that day; it is that kind of an experience.

I'm given to working long days, so I would work probably ten to eleven hours a day at the SEC, but a lot of what I was involved in was working with the Division of Corporation Finance on individual registrant matters. The Chief Accountant as a practical matter has the last say in financial accounting reporting matters that the SEC deals with on individual registrants. The Division of Corporation Finance in individual filings by registrants would raise accounting issues and if the Division of Corporation Finance could not settle the matter with a registrant then the Office of the Chief Accountant would get involved.

Almost invariably I would have to get involved and make a decision with respect to the registrant and as I said, as a practical matter I had the final say. My decision could be appealed to the Commission by individual registrants but individual registrants almost never did that. There was only one case that I recall where my decision was appealed to the Commission by an individual registrant and Richard Breeden overruled my decision. That was such an unique decision that I decided not to resign my position as Chief Accountant and accept Chairman Breeden's decision and just go forward.

But that particular part of my responsibility probably consumed a third of my days at the Commission. Another third of my days at the Commission were involved with the standard setters. The Financial Accounting Standards Board, the Accounting Standards Executive Committee at the AICPA, the Auditing Standards Division at the AICPA and the Ethics Division at the AICPA; and then probably another 10 to 20 percent of my time was spent on Enforcement activities at the Commission. There was never a rule that said the Office of the Chief Accountant had to approve Enforcement Division decisions but as a practical matter we did.

And that left about five or ten percent of my time for writing staff accounting bulletins and the like, although I don't recall that I ever issued a staff accounting bulletin. I decided when I was Chief Accountant at the Commission that Accounting Series Release 150 meant what it said and that I was going to leave Standards setting to the FASB and that's what I did. I don't recall ever signing a staff accounting bulletin myself. But going back just a little bit; mark-to-market accounting, when I started there in 1992, was a very, very big issue. And I was the foot soldier at the SEC for getting mark-to-market accounting implemented in the banks, savings and loans, and insurance companies here in the United States.

But then come the 1992 general election and President Clinton was elected and Chairman Breeden decided to leave and President Clinton appoints Arthur Levitt to be Chair of the Commission. At or about this time accounting for stock options had really begun to heat up and I was very much involved at the staff level in the dialogue with the Financial Accounting Standards Board on accounting for stock options. I was not at that time and I still am not an ardent supporter of expensing stock options. It's an idea that doesn't appeal to me but that's because I don't like the FASB's conceptual framework.

The FASB's conceptual framework is built on the idea that economic benefits are assets and that when an economic benefit is used up that constitutes an expense, so when employees contribute services to the corporation that constitutes an economic benefit that should be accounted for and the way the FASB decided to do that because we can't directly value or directly find the value of services contributed to a corporation by employees—what the FASB decided to do was go the indirect route and use the value of stock options to measure the value of the economic benefit. Now the FASB very, very seldom describes it that way but that's the theoretical background for the FASB's decision.

The whole debate is on stock options—not on the value of the economic benefit received by the corporation and used up by the corporation but anyway that's the theoretical justification. I never have liked the FASB's conceptual framework so I don't like the idea of accounting for economic benefits. I was never an ardent supporter of what the FASB was doing on stock options but nonetheless come 1992, when President Clinton is elected and Arthur Levitt is appointed Chair of the SEC, accounting for stock options was the burning issue of the day. And that continued to be the burning issue in '93 and I guess in 1994.

And ultimately Chairman Levitt decided that he would not support the FASB in its desire to have the value of stock options be charged to expense. So that in effect pulled the rug out from under the FASB's proposal to account for stock options and led to the FASB issuing a standard requiring only the disclosure of the value of stock options. Chairman Levitt has since said publicly in a piece in the *Wall Street Journal* or the *New York Times* that he thinks his decision not to support the FASB in 1993 or 1994 on stock option accounting was the single largest mistake he made as Chair of the SEC. I don't agree with him; I think if he had not in effect pulled the rug out from under the FASB at that time that Senator Gramm and a couple other Senators would have found a way to tear down the FASB—they would have somehow or another eviscerated or just blown up the FASB.

Senator Gramm was as angry as a hornet about what the FASB was doing and I think he would have destructed the FASB but Chairman Levitt doesn't agree with me on that; he thinks if he had not pulled the rug out from under the FASB it would have been okay. I don't agree with him.

RC: But to come back to the conceptual framework of the FASB, the FASB is currently in a conceptual framework project. Do you think there's any chance they may deal with the economic benefit issue as you see it?

WS: I don't know whether they will. I think the FASB and the IASB should decide on the definition of an asset. The definition that they both have now is based on economic benefit. I have seen the idea of economic benefit used in such a tortured way that almost anything can be called an asset. I have seen situations when I was at the SEC where we would sue the accounting firms, and they'd get expert witnesses from other accounting firms to testify in support of what they said or what they accounted for and it all hinged on what is an economic benefit.

If you read the FASB's definition of an asset in Concept Statement Number 6, the first paragraph deals with an asset is about fifty to sixty words long and then there are three or four additional paragraphs that are about 600 words long and when I read those words, I don't know what an asset is. Is cash an economic benefit? I guess it is because I can take cash and go buy something. I can buy labor; I can buy advertising; I can buy a truck; but the FASB's definition allows almost anything to be an asset. I think assets should be cash, claims to cash, and other things that are owned and that can be sold for cash.

RC: Is that how you would go about defining an asset?

WS: If you look in my book, that's how I define an asset.

RC: Cash, claims to cash, tangible and intangibles, general items…

WS: Separable—anything that you own that can be sold for cash.

RC: Anything that you own that can be sold for cash?

WS: If you look at a truck, a truck to me is an asset because I can sell it to you for cash. But in the FASB's definition, a future economic benefit—a truck is that benefit or that cash that I could earn by hauling lumber or coal or bread and so the FASB looks at an asset 180-degrees differently than the way I look at it. I look at the asset as a truck; but the FASB looks at it as the future cash that will come from using the truck. And to me it's a very simple thing. I've got a truck; I own it. I can sell it to you for cash; that's an asset. That's a definition my sister will understand. The FASB's definition of an asset is a definition that not a single member—there are three accountants I think in the US House of Representatives and Senate—not even those accountants understand the FASB's definition of an asset.

And there isn't another single member of the United States Congress who understands the FASB's definition of an asset. That is clear from just watching the hearings that the Congress had on Enron. They don't know what an asset is; they don't know what a balance sheet is; they don't know what an income statement is—it's because under the FASB's rules we have so convoluted financial statements that ordinary people don't understand them. We have given accountants a bad name. When I go to dinner parties, I no longer tell people when I'm introduced—I no longer tell them that I'm an accountant because if I do they turn their head and they whisper to themselves that I hope the hostess has seated all of those accountants together at one table. We are pariahs; nobody wants to associate with us. We deal in black magic. I'm so distressed with what the FASB and IASB are doing.

RC: These are of course thoughts that you have shared with Congress during the Enron hearing.

WS: Perhaps not in such graphic language. But my testimony at the Senate Banking Committee makes clear that I do not agree with what the FASB is doing, what its definition of an asset is. I have written extensively; I have spoken extensively about mark-to-market accounting and what the definition of an asset is. We accountants keep going around and around in circles because we can't agree on the definition of an asset. My definition is simple—cash, claims to cash, and things that I own and can sell for cash.

RC: When you go to the flipside for a definition of a liability, that would be…?

WS: Cash outflows that are required by negotiable instruments, contracts, and law or regulation or Court ordered settlements, that which is verifiable. I can point to an instrument—there it is. This is the amount; this is the liability. But when accountants today think about liabilities and liabilities that are recognized under FASB Statement 5 it is a guess at an amount that might be payable in the future and it is not verifiable; it is just a guess.

RC: What do you think about deferred income tax accounting?

WS: I think that is nonsense accounting; that is absolute utter nonsense accounting. That's as if I had done something that I didn't do.

RC: Your views on fair value and asset and liabilities are very strongly held. What was the reaction of the various people at the Commission during the first time when you were in the Chief Accountant's Office? What were some of their responses to that?

WS: The first time I was there as Chief Accountant, Richard Breeden and the other Commissioners at that time agreed with me, and we were pushing banks and savings and loans and the like to get them to mark their bond portfolios to market. Breeden didn't want to go to the other assets because we were having such difficulty with just the bond portfolio that he was not ready to go to other assets. So we didn't push that idea; but there was almost nobody on the accounting staff who would agree with me on mark-to-market. Historical cost is in the mother's milk of accountants and I don't know what we're going to have to do to educate accountants.

RC: You went to the Commission in 1992 and stayed through Breeden and then you were there…?

WS: Breeden left when President Clinton was elected; he appointed Chairman Levitt and at that particular time accounting for stock options was the significant issue of the day, so Chairman Levitt and I spent a lot of time discussing accounting for stock options. But I couldn't get Chairman Levitt and the rest of the Commission interested in anything else; accounting for stock options was the issue of the day. So I decided to leave the Commission in the spring of '95. My wife had decided that we would move to Texas to take care of a new baby granddaughter there, so she had moved to Texas in November of '94 to take care of this new baby granddaughter and in the spring of '95 I decided that I would go to Texas, too.

I left the Commission at that time and went to Texas to be with my family and to play golf which I did for a couple of years, and I sort of grew weary of playing golf and one day I had a conversation with my successor, Mike Sutton, and we were talking about cabbages and kings and what was going on in the world and I told him that I was bored stiff playing golf. A couple of days later I got a call from Bill McLucas who was in charge of the Enforcement Division asking me whether I would like to come back to the Commission and be Chief Accountant of the Enforcement Division and I decided that would be a good idea.

So in November 1997 I went back to the Commission as Chief Accountant of the Enforcement Division and I was there until February of 2000. As Chief Accountant of the Enforcement Division I worked on all of the enforcement cases involving accounting matters from November '97 through February 2000.

RC: In contrasting the two positions, the Chief Accountant and then Chief Accountant of the Enforcement Division, what were some of the differences?

WS: It's a completely different job. As Chief Accountant of the Enforcement Division, one gets involved in the nitty-gritty of the cases involving Registrant A, Registrant B, Registrant C. It's diving deep into the nitty-gritty of the individual cases and it doesn't get involved very much in what the Chief Accountant gets involved in.

When I was Chief Accountant of the Enforcement Division, Chairman Levitt appointed Lynn Turner as Chief Accountant of the Commission and Turner consulted with me a lot on issues involving the Office of the Chief Accountant because he knew that I had been years and years and years in the accounting and auditing profession at the AICPA and then at the SEC, so Lynn Turner knew my background and he consulted with me a lot on issues involving the Office of the Chief Accountant.

Turner wrote and signed three or four staff accounting bulletins when he was Chief Accountant and he would send those down to my office for me to look at while they were being worked on so I had input with Turner on the staff accounting bulletins. When I was Chief Accountant of the Enforcement Division, this was pre-Enron, but the earnings management was a very, very important issue and Arthur Levitt got very interested in this issue of earnings management.

And his seminal speech called the "numbers game" started out in my office; we had an issuer that blew up. I don't remember which one it was but Chairman Levitt happened to walk into my office and he stood by my desk and we were talking about this, that, and the other on the enforcement level and I said, "Arthur, it's time that you gave a speech about accounting and earnings management." And he agreed, so that was the start of his seminal speech on the numbers game.

Bob Bayless, who was the Chief Accountant of the Division of Corporation Finance, wrote the first draft of that speech. I worked on the second draft, and then the third draft Lynn Turner as Chief Accountant worked on, and then after Lynn Turner, it went to Arthur's speechwriter who took the rough edges off the speech and took it out of the domain of accounting and put it into the domain of English. That was how the "numbers game" speech was born and that's how the Commission got started down the road of trying to put a stop to earnings management. If you look in my book there's one of the speeches I gave about earnings management. Earnings in the mid-1990s to the late-1990s, earnings management was like dirt—it was everywhere; and everybody knew about it.

The New York Stock Exchange knew about it. The AICPA knew about it. The SEC Commissioners knew about it. The Institutional Investors knew about it. Retail investors of course didn't know about it because they aren't up to speed on things like that but everybody knew about it and of course then it ultimately just blew up in Enron and WorldCom and Waste Management and all of those famous cases that we had in the late-'90s and from 2000 through about 2005. And ultimately what it got us was the Sarbanes-

Oxley Act of 2002 and now we've got Section 404 and Section 302 where the Chief Financial Officer and the Chief Executive Officer have to personally sign and certify that the financial statements are true and correct and whatever else Section 302 requires, and so here we are.

RC: What would you attribute the earnings management? Do you think there was a surge in the middle to late '90s or just something that had always gone on and people became more aware of it? Or was there anything that anybody could have done earlier that might have fore-stayed the amount of the earnings taken?

WS: I've got scars on my back from when I was a partner at KPMG where I told my clients that they could not manage the earnings. My clients went to the Board of Directors of the firm and said, "get Walter off my account—just get him off." Earnings management was rampant starting at about I would say 1975 forward. It was like dirt; it was everywhere and I think it's still everywhere because the accounting standards that we have today still allow management to have control of the numbers. The allowance for doubtful accounting—management controls that number. The fair value of the in-process inventory—management controls that number. The liability for claims - management controls that number. There are all sorts of numbers in the financial statements that are controlled by management and the auditors don't have any foothold to go to management and say no, that number is wrong.

RC: What kind of foothold do they have to have before they can?

WS: I think auditors should audit that which is verifiable, like cash balances, like receivable balances, like payable balances; those amounts which are not subject to judgment. Auditors should audit an opine on that which can be objectively determined, that which can be verified. That which cannot be objectively determined but which is subjectively determined should be determined by outside valuation experts. And the opinions of those outside valuation experts on the fair value of those assets and those liabilities should go into the SEC filings and become part of the public record for the registrant issuer companies.

So you would have two reports in the filings of registrants; you'd have the report of the auditor who says I audited that which is objectively verifiable in the financial statements, namely cash, accounts receivable, accounts payable, bonds payable, and other payables that are objectively verifiable and settled claims and the like. And then the reports from valuation experts—Merrill Lynch on receivables, real estate valuation experts on real estate, geological experts on oil and gas reserves, etcetera, and get those valuation expert reports on the numbers in the financial statements that cannot be verified objectively but which can be determined only subjectively as a matter of opinion. And then let the users of the financial statements determine how much deeper they want to go into those numbers, those amounts which can be determined only subjectively and believe me, the users they will look behind the numbers that the valuation experts come up with.

If Merrill Lynch or Goldman Sachs or the like provides a number for the valuation of a bank portfolio of loans then institutional investors will look behind that number and go to Goldman and ask how did you determine the value of this loan portfolio? And Goldman will say these kinds of loans trade in the marketplace every day and here are the amounts that they trade at. If you want to look at real estate, they will say here we have warehouses on the north side of San Antonio and warehouses in South Texas trade in the marketplace every day at between $12 and $18 a square foot depending on whether they're close to the railroad or not close to the railroad, etcetera, and here's how we came up with the numbers.

And you can do the same for real estate in New York; you can do the same for oil and gas leases in the North Sea; you can do the same for oil and gas leases in the Gulf; you can do the same for virtually any kind of asset.

RC: Very interesting; do you think your vision will ever come to pass?

WS: I am 73 years old and I think in my lifetime I will see fair value disclosures of assets and liabilities by U.S. registrant issuers.

RC: You're probably very aware of the research that shows that—actually before the Companies Act in 1844 in Great Britain—a very large number of the financial institutions were by charter organized in such a way so that their assets and liabilities were stated at current market value or fair value?

WS: Yes, I know that. And how we got to historical costs. I wish I could go pour cold water on that idea—cold, ice water on that idea. I think it's just awful.

RC: It might have had something to do with when auditors had to verify in 1867 or something—I'm not sure…

WS: That could be.

RC: It probably was focused on manufacturing and the railroads.

WS: That could be. But if you go to Walgreen's and look at all of the candy brands that there are on the shelf in Walgreen's and then read the *Wall Street Journal* for about a year and you will see that those candy brands trade all the time; they're bought and sold. If you look at real estate—real estate is bought and sold all the time, and you could find the market values for them.

RC: You were at the Enforcement Division then from 1997 until 2000?

WS: 2000.

RC: Was there something that occurred then that made you decide to leave? Did you have another grandchild?

WS: No, I had retirement income from KPMG and the firm offered me and all the other retired partners a lump sum payout. I was living in Virginia at the time and if I had taken that lump sum payout in Virginia I would have had to pay Virginia state income taxes on it, so I decided to go back to Texas and receive that lump sum in the state of Texas, which has no income tax.

RC: This harps back to your experiences from the Depression of the value of the dollar?

WS: That income tax that I can save I can put that granddaughter through college.

RC: So you left in 2000. What have you done since then?

WS: Richard Walker was the Chief of the Enforcement Division at the time that I left and Richard talked me into being a consultant for the Enforcement Division for another couple of years, which I did, and then I went on the Board of Computer Associates and TransMontaigne and NES Rentals and when I did that, I quit the consulting arrangement that I had with the Enforcement Division, and that's what I've been doing since. I'm on three Boards and I'm doing litigation support work and litigation consulting work.

RC: The three Boards—are you on the Audit Committees?

WS: I'm on all three Audit Committees and I'm the Chair of all three.

RC: What are your thoughts about being the Chair of Audit Committees? People had told me that it's a hard job these days.

WS: Well it is real fun. It's like working at the Commission. I really like it, but I will tell you that being on a Board of Directors—one is terribly, terribly vulnerable. For example, before I went on the Board of Computer Associates, there was an SEC and Department of Justice investigation in place on Computer Associates, so before I went on that Board I interrogated the Chief Executive Officer, the General Counsel, the Chief Financial Officer, the external auditor and I asked them all kinds of questions about that investigation that was going on and they assured me that there was nothing to it.

Lo and behold, about eight or ten months later, it turns out that there was something to it and there was indeed premature revenue recognition and the financial statements had been misstated by material amounts in prior years, and the people that I interrogated - all of them save the external auditor - lied to me. The external auditor didn't know about it and there is no way that I could have uncovered the fact that the financial statements had been misstated without going back and doing an audit myself, and I couldn't even have uncovered it just by doing an audit. I would have had to have had investigatory powers that the government has to uncover it.

People who belong to boards are terribly, terribly vulnerable but if one asks the right questions and does a diligent job then one is protected. But that doesn't stop me from being sued. I'm being sued right now in the Computer Associates situation but ultimately that will go away I'll get cleared and I won't have to pay any money.

RC: But you do have to go through the excitement of the defense?

WS: The excitement of being sued.

RC: The excitement of being sued?

WS: Yes.

RC: If you look back on your two times at the SEC, is there anything that you would have done differently or different paths you might have taken?

WS: I wish that I had kept a daily diary. I didn't but I wish that I had.

RC: If you were going to give some advice to someone on keeping a diary what kinds of things would you kind of routinely write down?

WS: I'd have a fulsome record of what I did each day.

RC: I'm reading Ellis's book on George Washington and George Washington did keep a journal and one of the vexing things about Washington's journal is that he would write down what he had for dinner and where he went but he wouldn't write down what he thought about things.

WS: Really?

RC: The day that he gave probably the most important speech of his life, the speech where he kept the officers of the Revolutionary Army from marching down and taking over Congress, he doesn't say a word about it. He just records what he had for dinner that night and what he did for entertainment after dinner.

WS: Rabbit and sweet potatoes.

RC: So you would have a more fulsome diary?

WS: I would have a more fulsome diary.

RC: Would you have had time to do that when you were at the Commission?

WS: I worked some pretty long days while I was there. I could have done that on the train; I used to ride the subway. I could have done that.

RC: I think that's interesting advice. Do you keep a journal now of your experiences?

WS: No, I don't. I have to go on memory.

RC: You went to Australia not all that long ago to give the Chambers's current cash equivalent concept.

WS: The CCE?

RC: Yes, the CCE concept.

WS: Right.

RC: When did you first run across Chambers's writings and what he thought about the fair value accounting, because many of your ideas would fit very nicely?

WS: I recall the first time I read Chambers or heard about Chambers was when I was at the FASB in the early '70s. That was my first exposure to Chambers's ideas but I had thought about and developed my ideas on fair value long before I had ever read Chambers. If you read my book, I stumbled around on liabilities for a long time before I really came to grip with how to price liabilities. And I don't think Chambers ever successfully dealt with liabilities. He dealt with assets but not liabilities.

I was sitting in Jane Adams's office one day - she was Deputy Chief Accountant under Lynn Turner - and we were talking about one of my speeches when I was Chief Accountant of the Enforcement Division because all speeches by other staff had to be cleared by the Office of the Chief Accountant. And I was talking with Jane about a speech that I was giving and I had an epiphany on how to price liabilities. And that's in my article on what are assets and liabilities and that's in the speech that I gave in Sydney, the estimated settlement amount, the least amount of cash.

RC: The least amount of cash.

WS: That the obligee would accept in settlement of obligation. That's not quite where the FASB is but more or less where the FASB is. The FASB's current definition is the amount at which the liability can be laid off to a third party.

RC: The FASB would also probably bring in a lot more things to do with liabilities than you might…?

WS: Probably.

RC: Because of the definition of it?

WS: Because their definition is the obverse of economic benefit. And my definition of liability is very sharp and crisp and clear; the FASB's definition is murky.

RC: What is the future of accounting standards setting; are we going to keep a single body at the FASB? What's going to happen do you think?

WS: If we can move to fair value for assets and liabilities, the FASB and the International Accounting Standards Board may dissolve; we no longer will need them.

RC: It's a great answer; thank you very much Walter Schuetze. I like that.