SEC Historical Society
Interview with A. Clarence Sampson
Conducted by Ernest Ten Eyck, on July 7, 2005

ET: This is July 7, 2005; this is an SEC Historical Society oral history interview with former Chief Accountant, A. Clarence Sampson. Good morning, Clarence.

CS: Good morning, Ernie; how are you today?

ET: Good; why don't we start at the beginning, Clarence? Where did you grow up?

CS: I grew up just outside of Washington, DC, in Maryland, Prince Georges County.

ET: Where did you go to school?

CS: The usual—it might as well be no-name elementary and high schools and University of Maryland is where I got my higher education.

ET: And you graduated from Maryland with a degree in what?

CS: A degree in Business Administration with a Major in Accounting.

ET: Okay; what did you do when you left school?

CS: I had been in Advanced ROTC, so I was a 2nd Lieutenant in the Air Force and after a few months with a small CPA firm, I went in the Air Force as an auditor and spent my time in Germany on an air base.

ET: What did you do after your Air Force service?

CS: I came back to Maryland and then went to work in Washington, DC with an office of Arthur Young & Company, which had just opened. As a matter of fact, I started the day they opened the office and was a staff auditor there for two years.

ET: And then?

CS: Then I went to a small division of Litton Industries in College Park, Maryland and stayed there for almost two years, after which I went to a meeting at the NAA one night where Andy Barr stood up in the audience and said, I need accountants at the SEC. And it sounded interesting, so I thought hmm, I've had two years in industry and two years in auditing, I ought to try the government for a couple of years. So I went to see him and wound up working at the SEC for 28 years.

ET: Andy Barr was at that time the Chief Accountant at the SEC?

CS: That is correct.

ETE: Who did you interview with besides Andy Barr when you came to talk to the SEC?

CS: With Syd Orbach who was Chief Accountant of the Division of Corporation Finance, and his assistant at that time, who I believe was Walter Mickelson or Charlie Burhenne.

ETE: You started out in what division?

CS: In the Division of Corporation Finance as a Branch Accountant. At that time, the Division had twelve branches and twelve accountants. I became the second accountant in one of the branches.

ET: So your branch was the first branch to have two staff accountants?

CS: That's correct.

ET: How long did you stay with Corp Fin?

CS: Approximately ten years; I spent five years in the branch reviewing financial statements and then moved into the Chief Accountant's office, where by that time Walter Mickelson was Chief Accountant and I stayed there five years.

ET: This was the Chief Accountant's Office of the Division of Corporation Finance?

CS: That's correct; that would have made it 1969 when Andy's assistant retired and he was looking for a new assistant and I wound up being selected for that.

ET: So you became what then—Deputy?

CS: Yes, but I'm not sure what the title was.

ET: Okay; what did you mostly do in those days as Andy's deputy?

CS: Well Andy told me he hired me to be his 1st Sergeant to run the office and to do everything that needed to be done, so I guess I did some administrative stuff, but primarily we looked at what I call appeal cases from Corp Fin where companies didn't like the answers that Corp Fin had given them and asked us to take a look at it. And we would take a look at it and quite frequently wind up in conference with them to discuss the issue and reach decisions.

We also were responsible for writing or approving whatever new rules, regulations or suggestions came from the divisions, and so a good part of our time was spent doing that. There was some external work as well, speaking to groups and going to meet with financial groups. Andy probably did most of it in that first year and a half or two that he was still there.

ET: So Andy was doing most of the public speaking kind of assignments back then?

CS: I think so, although I know he gave me some.

ET: You actually served under two Chief Accountants as I recall; who was the second one?

CS: The second one was Sandy Burton. When Andy retired about 2 years after I went up to the office, he told me he had hired me to become the new Chief Accountant, but our Chairman at that time, Bill Casey, felt that he wanted to look outside for a Chief Accountant. So he went out and found Sandy Burton.

ET: When Sandy left…?

CS: By that time Harold Williams was Chairman and he had ideas about looking outside for Chief Accountants also. He told me his notion was that we should have a career person in the second spot to provide continuity and to keep the SEC spirit, etcetera, in place, but to bring somebody in from the outside periodically to become the Chief Accountant.

So he looked, and at that time I think he felt, he didn't tell me this specifically, but I think he felt he was restricted from looking at public accounting practitioners because of the conditions of the time. People were starting to get a little concerned about the accountants being too close to their clients. Anyway, he felt he couldn't look in the public accounting profession, so he looked primarily in the academic world. And the ones who were well qualified frankly were making too much money to come to the SEC.

So ultimately, he didn't do a thing; he let me run the office and I ran it and we got along fine. Everybody acted as if I was the Chief Accountant until finally, I went to Harold and told him it was time to appoint me, and I asked him to appoint me on my birthday. He did one of the two; he appointed me.

ET: It wasn't far from your birthday though was it?

CS: No, it was the same month.

ET: I think one of the projects that has historical significance that maybe overlaps your period from being deputy into Acting and maybe into the time when you were officially the Chief Accountant was the Oil and Gas Accounting Project.

CS: Yes; it was.

ET: Can you talk about that a little bit?

CS: That was an interesting experience for all people involved I guess. At the time there were two methods: Successful Efforts and Full Cost. The FASB then considered the matter and concluded that Successful Efforts was the only appropriate accounting method for oil and gas firms. Many (probably all) small companies were very unhappy. These smaller companies spent a lot of money looking for oil and gas and when they found it, they couldn't put the value of it on their books. They couldn't show any income; they couldn't show anything except that they spent the money.

If they had to expense all their costs and could not show the results (proved reserves) as income, they would show continual losses and they thought that would unfairly affect their stock price.

And when they didn't find it they had would have to write it all off and show big losses; since most of the time you don't find it they would have all been showing big losses and they were very unhappy about that, so they raised a ruckus and they got Congress interested. At one point, Congress proposed to adopt a law requiring the GAO to set accounting standards. Neither the GAO nor the SEC liked that, so we got it changed, but the best we could do was that the SEC should do something about Oil and Gas Accounting Standards.

So the temper of the times and the amount of political interest that had been stirred up—and let me say right here that the amount of political impact on the Chief Accountant's

Office was very low - but it didn't mean it was not existent. It popped up from time to time and this was one of those times. We concluded that there was enough interest that we should hold hearings. We held ten days of hearings, five in Washington and five in Houston, which of course was a big center for oil and gas accounting, and at those hearings, the primary people who came to the hearings to be heard were small companies which were then using Full Cost.

Since Full Cost Accounting itself was not in favor at that time, they didn't push on that real hard, but what they did do was stress at the hearings that it was important to show that the companies had a positive impact when they found some reserves. And so they pushed for recognition of reserve values. I'm sitting there conducting the hearings, and I had all five Commissioners there in DC, and you could see them listening to this and nodding their heads, yeah, this makes a lot of sense—this makes a lot of sense. So we ultimately concluded that we should try to propose an accounting method which recognized values of reserves that had been found. We developed "Reserve Recognition Accounting."

The Successful Efforts companies, I think, were kind of sorry by the time we made this decision that they had not embraced the hearings. I think that maybe they thought that the FASB had said Successful Efforts was the right thing and that they didn't need to do anything except sit back and wait for the SEC to say okay. But it didn't work. We held hearings. We put out a proposal. We formed an advisory committee and met for—I don't know what the timeframe was—eighteen months to two years perhaps.

Ultimately we concluded that oil and gas reserve values were so significantly volatile that maybe we shouldn't propose to actually have an accounting method showing income based on that, so we deferred that. We did decide we should let people stay on Successful Efforts or Full Cost but to require supplemental information showing a number called value of reserves. It was recognized that we used arbitrary assumptions to calculate this "current value of reserves." But you made the calculation and when the facts changed, the number also changed. I believe this information was used quite a bit by the financial world.

Along the way the relationship with the FASB and the SEC suffered a bit because we didn't tell the FASB that we were about to dump on them, to be frank, and say we weren't going to accept Successful Efforts accounting. At the time, I talked to my SEC lawyers and they told me the Freedom of Information Act prevented me from doing that. I'd be violating the law if I told them what we were about to do. So I didn't tell them but we made it through. Relationships were strained for a while, but they came back. I concluded later on that this was one of those times when I should have said the hell with it and at least told them off the record that this was coming.

ET: The Chairman of the FASB then was Don Kirk, wasn't it?

CS: That's correct.

ET: Did he express anything to you explicitly with respect to his unhappiness that he didn't know it was coming?

CS: Well we didn't have a spitting fight and I can't recall any specific words, but obviously he wasn't happy.

ET: The 1970s was also an era was sometimes referred to as the Moss and Metcalf Era.

CS: That's correct.

ET: Congress was taking a lot of interest in the oversight of the accounting profession.

CS: Yes.

ET: Particularly Congressman Moss; what do you recall of that?

CS: I would say particularly Congressman Moss; that's right. At the time, there was beginning to be concern about how good the accountants were at auditing companies in reporting on the financial statements of those companies and Moss seemed to think maybe we should have some kind of public involvement in that and perhaps some kind of review of their practices.

I don't recall things specifically at this late date, but there was at least a suggestion that there would be a law to set up something like what we now have today to have some public entity doing a review of accountant practices. That didn't get off the ground, but the AICPA formed a Firms Division which didn't do a whole lot at that point in time, and some of the firms were just kind of ignoring it, I think. The firms ultimately decided they should support that division and they did set up some provisions for what people should be doing if they were doing public auditing. There was no peer review at that time though.

ET: So it was kind of a lesser of two evils as far as the accounting firms were concerned—better to have a self-regulatory organization than have Congress do something for them?

CS: Oh, I think that's very definitely the case and they really didn't do a whole lot at that time, but they did enough to at least get Moss to back off from trying to get a law enacted.

ET: They finally did institute a peer review program later on.

CS: They did do that; as I remember it really started before Sandy got to the Commission. We had an enforcement case involving one of the Big 15 accounting firms. They had a client which had a lot of trouble and when our people started looking at it they discovered what we felt were inadequate auditing practices. So the question was, what should we do? How do we satisfy ourselves that this firm is qualified to practice in the public arena? What we finally decided was to ask them to give us a copy of their practices and procedures manual so we could look at it and then decide what was necessary.

It took several months to get it, and my own conclusion was they didn't have a very good write up of what they were doing in their practice, so they had to revise or create it to the point that they would be happy having us look at it. When we finally got it, we concluded that the most appropriate thing to do was to have another auditing firm take a look at it and see how they were applying it.

As far as I'm concerned, that was the start of peer review. It was a one time thing but it grew from there and when Sandy got to the Commission, as I recall it was he who thought that the accounting profession (AICPA) should set up a mandatory peer review. We agreed that it could be handled by the AICPA Firm Division with SEC oversight. At the beginning, people were not too happy with the thought of our oversight. We wanted to look at things and they didn't want us to look at things. We kind of backed and filled and we did as much as we thought we had to and they allowed us to do as little as they thought they could get by with for several years as we worked on this peer review concept.

ET: As I recall one of the fights was over whether staff would have access to the peer review work papers.

CS: Oh absolutely; that was the big thing. They did not want us to look at peer review work papers. They wanted us to accept what they did and I can't remember exactly what we got. We got access to some things, not as much as we would really liked to have had; but we got enough, I think, to have an impact and in anything like that, a very effective part of it is that the people who are going to be reviewed get prepared for it by trying to be sure their practices are up to snuff. They knew we were going to be looking at some things and so they set up systems they believed would be sufficient to satisfy our oversight.

ET: Generally, during your tenure there as Chief Accountant, how was the relationship with the AICPA, the American Institute of CPAs?

CS: Well I would say the relationship was pretty good. We worked together; we had people go to their auditing committee meetings or accounting committee meetings to see what was going on. There was a SEC committee that they formed which met with us to see what we were doing and to talk about things, and I would say that our relationship was pretty good. When the SEC felt something really needed to be done, they did it, and that was the most important thing.

ET: Internally, what kind of relationship did the Chief Accountant's Office have with the Division of Enforcement?

CS: Well I would say our relationships with Enforcement were pretty good. They didn't always initially agree with what we felt was the right thing to do. It's their job to look at things and take issue with them when there's a problem, and sometimes we thought they went a little too far in deciding that somebody had not done something they should have or had done something wrong, but by and large we worked well together. When we had enforcement cases that went to the Commission, of course, both parties went there, and I can't remember specifically any cases where we disagreed with Enforcement. I think we usually worked out something, which was a reasonable solution to the problems raised.

ET: Yes, I think that's true.

One of the things that you stressed—in fact I have an article that appeared in the internal SEC newsletter when you were Chief Accountant, and you had mentioned it then and it turned up in your speeches frequently after that, was the importance of the conceptual framework that the FASB was working on.

CS: Yes, I did, not because there was an obvious answer to what the conceptual framework ought to be, but if you looked at the history of accounting standards, there isn't a good benchmark to refer to, to determine what the standard ought to be. And while I was never confident that we would get a conceptual framework as good as people hoped, that is to provide clear answers when you had questions, I thought it was very important that we make a strong effort at it anyway, and so I supported it. We needed to have a base around which to set standards.

ET: Were you happy, disappointed or something in between with the final result in that regard?

CS: Well, I don't think we have a final result yet. We've been moving ever since I can remember toward some greater recognition of value in financial statements and I think that's good; that's important. That's information investors ought to have. But the uncertainties of values means that it's going to take us a long time, if ever, to get to anything like fair value financial statements. I think we're still moving towards that and I think that's good.

ET: The 1970s, in particular 1977, also brought us the Foreign Corrupt Practices Act, which despite its name contains some fairly substantial accounting related…

CS: As a matter of fact, that's an area where we had some differences with Enforcement. There were some people in Enforcement—fortunately I think far enough down on the staff level that it didn't have too big of an impact - who thought that if you had a 10-cent error in the financial statements, that was a violation of the Foreign Corrupt Practices Act. Obviously, you can't say it's a criminal violation of a law because you transposed a number or made an immaterial error. So we had some discussions with some of the staff about that.

What the Foreign Corrupt Practices Act did do was force people to improve their systems and be sure they had systems which would, at least if they were followed and people weren't going to sleep, result in decent financial statements. So although I was concerned that the Foreign Corrupt Practices Act was too strong a step in the eyes of some people, it worked out pretty well.

ET: Just to get off the technical areas for a minute or two, you served under I think at least four Chairmen and maybe five if you count Brad Cook's twenty-one or twenty-two day tenure.

CS: Probably at least five.

ET: Tell me what you recall about each of the Chairmen and your interactions with them.

CS: Including my time as Assistant Chief Accountant, let me think. Casey was there when Andy left and before Sandy came in, I was the Acting Chief Accountant for about four months. Casey wanted an activist Chief Accountant and found Sandy Burton, so I had no real relationship with him. I enjoyed working with Sandy and learned something from him.

Harold Williams succeeded Casey. He was interested in financial statements and particularly in financial segment results, so I enjoyed working with him. He did follow accounting quite closely when he was at the Commission and we worked together pretty well. He set up a lot of corporate governance things and while they didn't directly affect accounting, he was good for accountants at the Commission in terms of being interested and understanding what was going on in the accounting profession. Let's see…

ET: He also took a lot of interest in the way that the Foreign Corrupt Practices Act was enforced, I think.

CS: Oh very much and that was part of that corporate governance interest that he had. He was also interested in setting up the requirements for independent members of Boards of Directors and establishing audit committees. If I remember correctly, he was the one who really got the audit committee thing started.

ET: And so some would say he was just twenty years ahead of his time?

CS: Possibly, but somebody has to be twenty years ahead of time to get things done.

ET: How about John Shad?

CS: John Shad; he's the one I remember who wanted to solve all the accounting problems in five years and he also felt that financial statements once published were sacred things. He was a financial analyst and he said that he relied on financial statements as they were prepared, and by God, they shouldn't be changed. It didn't matter whether there were errors or whatever; you found an error, you corrected it in the period when you found it. In my view, that would make summaries of earnings completely misleading unless you really delved into them and adjusted them for errors, that one was a bit unbelievable. As for fixing all accounting problems in five years, I had to smile internally as I said, "yes, sir."

ET: How about Chairman Breeden?

CS: Chairman Breeden was not somebody I worked with a lot; he kind of left us alone mostly, and in general, although I appreciated Harold Williams' interest in accounting, it didn't seem to be too bad when the Chairman didn't really want to get into accounting too much. Although, I'll tell you one thing; I did appreciate having one Commissioner at a time who understood accounting and there was generally somebody who took an interest and you could go and talk to and talk things out. Al Sommer was one of those.

ET: I think Al fell into that category.

CS: I certainly agree.

ETE: How about Chairman Ruder?

CS: I did not get to work with Ruder. I left shortly after he came onboard, but we had talked and I would like to have worked with him, but the market after 1987 took all of his attention. I was disappointed because my initial meetings with him led me to think that he would be interested in accounting and somebody good to work with.

ET: Going back to sort of technical issues for a while, another thing that was high on the radar screen during the period of time that you were in the Chief Accountant's office was inflation accounting.

CS: Yes, this was one of Sandy's babies. He started the Commission requirements in publishing information about inflation accounting. It was a good time for it when he was there. Let's see; he came in '82, I think. We were going through a period of some significant inflation and got the FASB interested in it, but Sandy had his own ideas about things and felt strongly about them. He set up his own system for reporting the effects of inflation with the Commission as supplemental information.

ET: I think you meant ’72.

CS: Yes, you’re right—’72. And it was a good thing to do; the Board never, I’m tempted to say, adequately dealt with the subject partially because inflation dropped off after four years and people began to lose interest in having the information continue. And as a matter of fact that’s one of the things that John Shad wanted to get rid of, all of the inflation and accounting disclosures. He didn’t think they were worth a thing and wanted to get them out of there.

And one of the things I thought—not a major thing but something I thought was important - was that we should continue to have some kind of inflation information. He ultimately pressured me enough that the Commission had to drop most of its disclosures and the only thing I was able to retain was a kind of a general request that some kind of information be continued about inflation in the management’s discussion and analysis. The requirement is still there, I think, and one of these days it will be resurrected.

ET: I guess as we move more towards fair value based accounting models there will be less and less need for that.

CS: But what do you think the timeframe is for fair value based accounting models?

ET: Who knows—I probably will be long since retired.

CS: I think we'll have an inflationary period again before we have a fair value model for formal financial statements.

ET: Well if we get another inflationary period like we had in 1980-'81, it would be an impetus for something probably.

CS: That's right.

ET: To digress a minute, you told a very interesting story about Chairman Williams and his cigar habits.

CS: I discovered in my early 40s that I'm allergic to cigarette smoke and also organic mold. They are my two primary allergies and as a result of that my son, who must have been about an early teenager at that time, gave me a sign for my birthday that said "No Smoking." I thought to myself, by golly, if he thinks enough to give me a sign like that, I'm going to take it to the office and put it on the desk. And thereafter, people who were coming in to see me to get me to agree to something never smoked.

But one Saturday morning when I was in there working, Harold walked in. He walked in, looked at my sign and deliberately reached in his pocket and pulled out a cigar and lit it up. And what do you do? That's your boss; so I didn't say a thing.

ET: Interesting story.

CS: Yes.

ET: I think it was also during your tenure that one result of the Moss Metcalf kind of hard look at the accounting profession was the evolution of the Treadway Commission.

CS: Yes.

ET: Let's talk about that a little bit because I know that was something that interested the Commission intently and they used a lot of the Commission's work.

CS: Jim Treadway was another Commissioner who understood a lot about accounting and was a good man to talk to about accounting questions, and he had a strong interest in audit committees and internal controls. Fill me in, Ernie, a little bit—refresh my memory.

ET: It was after Jim Treadway ceased to be a Commissioner.

CS: Oh that's right.

ET: The official name was something like the Committee on Financial Reporting Fraud or something.

CS: That's right, and they got him to head that Commission and I guess primarily because he understood about accounting and accountants. But I can't recall a lot about that Commission.

ET: They did some very interesting sort of diagnostic work, looking at primarily SEC enforcement cases.

CS: My memory is not triggering on that. I don't know why.

ET: I gather you didn't have much interaction with the Commission or Jim Treadway during that period.

CS: Not that much; as I recall it was not primarily about accounting standards as such but more in the auditing and auditors and how you detect fraud. For whatever reason, it doesn't trigger any recollections for me.

ET: All right; many people would say one of the most important results from the Treadway Commission was the leader development of the Committee of Sponsoring Organizations. E-2 organizations that sponsored the Treadway Commission developed a framework for internal accounting controls.

CS: Well yes; I would certainly say that was an important outcome.

ET: And there was also I guess allurement at that time and even some thought given to requiring management to report on internal accounting controls.

CS: That came out of that?

ET: Do you remember anything about that initiative?

CS: I remember how unhappy people were with having to report on internal accounting controls and the fact that accountants did not want to audit a company's internal accounting control system and report on it, feeling I guess that it would be too much potential liability associated with it. There were some real struggles to get that kind of requirement into place.

ET: Well I don't think it ever became a requirement in place until twenty years later when we had the Sarbanes-Oxley legislation.

CS: Well let's see; my memory doesn't…

ET: There was some voluntary reporting.

CS: There was a lot of voluntary reporting. That much I remember.

ET: The Financial Executive Institute developed a standard report which many of the big companies were using until fairly recently.

CS: Actually the reporting that was done by accountants was really forced by the companies themselves. They wanted a report from their accountants and, by golly, they got it. Often that's the way things worked.

ET: During most of your period as Chief Accountant and Acting Chief Accountant, a fellow named Howard Hodges was the Chief Accountant at the Division of Corporation Finance.

CS: Yes, he was - good man.

ET: Howard was a well-known figure and something of a character. What were you relationships with Howard?

CS: Oh Howard and I had a good relationship. He would sometimes take a position with a company that something he thought really ought to be done, but which he knew he would have trouble sustaining. But periodically he would take a position anyway on that and take a stand that this ought to be done and they would come up of course in appeal and frequently we would have to say, Howard, that's a good idea, but we can't insist on it.

But once in a while we would be having a conference and I would be listening to the company and listening to Howard and thinking to myself, you know, he's got a really good point. Maybe we should make them do this and he was able to read me and see that I was going to agree with him and he would suddenly change his tone enough to let me know that it would be the best thing to do, but you really shouldn't make them do it. And so we had a very good relationship. I was able to overrule him without interfering with our ability to get things done.

ET: One of the things that I think has gone through—at least some people say it's gone through a couple of evolutions – is the way that the Chief Accountant Office and the Division of Corporation Finance deal with registrant questions and issues. What was the general tone of dealing with questions that came up where there was no black and white answer starting back when you were working with Andy Barr?

CS: It certainly has gone through some changes over the years. Initially there were accounting series releases, but there weren't a whole lot of them. The Commission however would put out a release sometimes when they found a problem that they thought needed something done and it needed to be done in a reasonable timeframe and it would put out a release saying this situation happened and this is the way it should be done. But the staff, both in Corp Fin and in the Chief Accountant's Office were pretty effective in getting things done informally by simply reacting to problems and questions and reaching conclusions which the people involved would accept most of the time and even agree with but sometimes just accept and the grapevine would take over.

But as time went on, the people argued that there should be accounting series releases, which spelled out all these things or account practice bulletins, and I've forgotten the different names we had for them, but people wanted things in writing. They didn't like the idea that we could make decisions based on what we thought was right and they didn't have anything in advance to know that we were going to do that. And so it got more formal as time went on and we now have accounting series releases. We split them into accounting series and Enforcement related releases at some point in time.

The Commission—before I got there and after – has always been a very important part of the accounting reporting process in the US and has had an impact on the world as well for that matter in making sure people reached reasonable conclusions to accounting questions, sometimes almost in spite of the written rules you might find. I remember one situation where you looked in the auditing literature and you found something that said that if you have an acquisition and you record all the assets, then the difference is goodwill. And you can argue that; you paid for it. It ought to be on the books in some fashion. We had a case arise in which a company made an acquisition and were recording it.

In the process of recording it and they discovered, by golly, that in a $300,000,000 acquisition, $100,000,000 of assets they thought they had didn't exist. And so the company tromped in with their auditors and said, the rules say the difference between what we got and what we paid is goodwill. I simply wasn't able to accept the fact that there should be $100,000,000 goodwill on their books, which didn't exist, and we told them to write it off.

And that's the kind of thing that the Commission can say - look that's just too far; you can't look at the written words and try to apply them to a situation where it just doesn't make sense. And as a matter of fact there's some language, and I'll bet you can tell me where it is, which says if it doesn't make sense, you can't do it.

ET: Maybe there's some legal language like that. At some point that I think it became more prevalent - that is finding ways to get around the rules or use the rules in your favor rather than following them in a common sense kind of way.

CS: Absolutely no question about it. When I got in the accounting profession, which was 1959, pretty much companies did what their auditors told them to do. The auditors looked at it and said this is the way you should account for it, but even in 1959, there were at least two conglomerate builders who were beginning to look at the rules and twist them to fit reporting assets and things to make them look better. And since that point in time, in my view, it got worse every year, and it built up all the way to the Enron and other cases more recently which led to the Sarbanes-Oxley thing. Hopefully what comes out of that will make it better.

ET: I think one of your former employers as a matter of fact, Litton, was one of the first users of "convertible preferred stocks," which were common stock equivalents.

CS: That's one of the ones I had in mind. I remember that because I came to the Commission with nice big ideas about what you should do and what you shouldn't do. This stock that Litton created, called a preferred stock, was a common stock in disguise. The only difference was that the preferred stock got a preferred dividend; they shared earnings with the common and everything else was the same. And not only could I not get that called a common stock in the financial statements, but the Chief Accountant of Corp Fin at that time wouldn't even let me make them talk about it in the prospectus or in the footnote of the financial statements.

My branch chief at the time though made them at least mention it in the discussion of business but we didn't have anything called fully diluted earnings at that time. In my view, earnings per share was almost misleading with that stock outstanding. So they were one of them; the other one was LTV that I remember specifically—Jimmy Ling.

ET: Jimmy Ling.

CS: A man who I always tried to stay no more than two jumps behind.

ET: One of the things that the Chief Accountant's Office or Commission itself as a whole has traditionally not left to the private sector to deal with has been the Independence Rules for Accountants.

CS: That's pretty much true. And again, accountants would like to have black and white rules in that area as well. Sometimes it's hard to write rules to fit all the situations, so the Commission pretty much had its own rules for accountant independence and we had to meet periodically and talk about them. But one of the ones I remember and this goes back even prior to me was the ownership of stock by auditors and their clients and there used to be, as there is today again, a rule which said you could hold minor amounts of stock in your client. I've forgotten the name of the case that Andy got involved in which some auditor had a 1 percent interest in a client and I don't remember all the facts but out of that grew the SEC position that you couldn't own one share of stock in a client.

And that held for quite a while until finally perhaps during my tenure although I'm not certain, we agreed to relax that a little bit so that you could hold an immaterial amount.

ET: Hold an immaterial amount if it was an indirect investment?

CS: And if you weren't working on the audit.

ET: When did you finally leave the Commission and was it a retirement?

CS: Yes, I left at the end of '87. I had reached retirement eligibility and I had thought I will stay two or three more years in the Commission probably. But then a vacancy opened up on the FASB. It was a seat allocated informally to either a financial analyst or to a person with government experience. It was a natural for me. They offered me the seat and I retired from the Commission and went there.

ET: You spent five years at the FASB?

CS: It was a five-year term and actually it was five and a half years because they changed the term from December to June.

ET: What was more fun—being the Chief Accountant or being a member of the FASB?

CS: On a scale of one to ten, I'd say the SEC was a nine and the Board was a one.

ET: Why such a low ranking for the Board?

CS: Well you used the word fun. The Board's job is important—standards setting is very important. It takes a long time however and is just not as much fun as sitting in a position where you have to reach decisions more than once a week about important accounting matters.

ET: So it's really just a question of the lengthy process to try to accomplish anything?

CS: That, Ernie, is a big part of it. The other part of it is that when you're at the Commission, you get problems and you reach a solution and it may not be perfect but it's a solution that fits that situation anyway. When you're standard setting, it's very hard to write a standard. And sometimes, although you can see where you want to go, writing a standard to get there within a conceptual framework was very hard. And when you had to do it over a period of two or more years it just wasn't as much fun.

ET: How much of that is the fact that, at least in the view of some, the Board is much more sensitive to the influences of its so-called constituencies than the SEC ever was?

CS: Much more might be too strong. The Board is certainly sensitive to its constituencies and the SEC is as well. As a matter of fact, one of the things I remember about Andy Barr is when we first started to get into bank accounting. It was by today's standards horrendous back in the '60s.

ET: You say it was horrendous? In what sense?

CS: Horrendous—bad debts were not shown as an expense; they determined income before they took out the bad debt. And that makes it horrendous in my view anyway and the Commission got into it and let's see; I'm trying to remember now whether the Commission or the accounting profession. I think it must have been the Commission making some corrections in bank financial statements and we didn't do as much as I thought really was necessary.

And I asked Andy Barr about it, and incidentally when the Commission considered this question, the Chairman of the Federal Reserve came over and protested, dragging his feet all the way, and Andy told me. Look, there are some times when you can only do as much as you can do, and obviously it was political and he did as much as he thought he could and in my view it was still not very good in terms of financial reporting, but that's as much as we could do at that time. And I remember that and it's true; you need to make some steps and you take as much as you can in one bite and you let the rest go until the next time.

ET: And that's equally true in the private sector?

CS: Yeah; I'm sure it is, whether it be in the accounting profession or even in companies, for that matter. Although I think today, that view would not be formally acceptable.

ET: Toward the end of tenure at the FASB, you received what I think is a very prestigious award from the SEC Companies Division of the AICPA.

CS: Yes, that was very nice, the John J. McCloy Award. I appreciated that.

ET: I think it was well deserved.

CS: Thank you very much.

ET: But looking back over I guess now close to 40 years, can you comment on how the SEC itself has changed and the way it does business has changed?

CS: There are a lot of procedural changes and things and the world has grown so much that the SEC had to change. You came in a little later than I did; when I came in every registration statement went to the Commission to be approved and every 10-K, 8-K, 9-K were examined, but over time, the Commission simply couldn't devote the manpower to doing all that and the staff is developed to the point where now an awful lot of registration statements, I think probably still true, go effective without the Commission ever looking at them. So administratively there's been a lot of changes. When I came there was no separate Enforcement Division.

ET: It was called the Division of Trading and Markets.

CS: It really wasn't an Enforcement Division and Corp Fin did their own enforcement actions and that of course has changed tremendously; I guess it had to. Stanley Sporkin as director of the Enforcement Division used cases to make points that had a big impact on the community and that was a big change. I'm sure there are a lot of other things like that which don't jump right to mind. The Accounting Standards Setting hasn't changed that much; the Commission's Chief Accountant's relationship with the FASB changed from being one of—I won't even say cooperation at the beginning—of mutual acknowledgement of each other's existence and getting along with each other to one of really full cooperation.

The Chief Accountant went to all of the Emergency Issues Task Force Meetings and probably still does and it was very important to be there. It's an interesting fact, which a lot of people probably don't know. You sit in that meeting, and my viewpoint anyway was you don't say a word unless you need to. From time to time if you had to say something, they listened. And so it was a very cooperative relationship and that has grown and I assume that's still the same.

ET: As far as I know it is; the Chief wouldn't necessarily attend personally but somebody will.

CS: Right; the Commission's relationship with the Board has evolved over time, too. The Commission actually overturned at least two and maybe three Board decisions. One had to do with the investment credit, one had to do of course with oil and gas; I think maybe there was one more and that's why initially the relationship was one of cordiality but not to the close working relationship which is really necessary to make the thing work right.

ET: All right; I think I've exhausted my list of things to discuss. You got any closing remarks?

CS: I enjoyed my time at the Commission. It was a fascinating place to be at times and that's why it was so much more fun to be there. And a couple of other things I would say; I always thought that—it may not always have been true - but I always thought that the Chief Accountant should be someone who didn't like the power of the Chief Accountant's Office. I think the power was necessary because at times you had to step in and make people do something that needed to be done, but if you enjoyed that I think you could get way out of hand in terms of your impact on the financial reporting system. You had to be cautious and one of my bywords to myself was—if I'm going to make them do this, will the Commission back me up? If you ask yourself questions like that you can do an effective job. So I enjoyed my time; I'm glad I was there and I'm glad that I had some impact.

ET: I think you had a lot of impact Clarence. Thank you very much.