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The Early Years of the Financial Accounting Foundation and the Financial Accounting Standards Board, 1972 to 1980: The "Special Relationship" with the AICPA

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ABSTRACT: In this paper, the author documents the American Institute of Certified Public Accountants' "special relationship" with the Financial Accounting Foundation and the Financial Accounting Standards Board, tending to suggest that these latter two bodies may not have exhibited independence, at least in appearance, from the Institute and from the practicing profession during the years from 1972 to 1980.

Keywords: AICPA; FAF; FASB; independence; standard setting.

INTRODUCTION

The full-time Financial Accounting Standards Board (FASB) was created in 1972 and began operations in 1973, succeeding the part-time Accounting Principles Board (APB), which was a senior technical committee of the American Institute of Certified Public Accountants (AICPA, Institute). The FASB was intended to be an "independent" standard setter (Olson 1982, 3; Biegler 1983, 5). This article is a study of the extent to which the FASB, and the Financial Accounting Foundation (FAF), the FASB's oversight body, were independent in appearance during their early years, 1972 to 1980.

The article proceeds by reviewing and analyzing (1) the principal factors that led to the APB's demise, (2) the recommendations made in 1972 by an AICPA blue-ribbon committee that was charged to explore the way forward in establishing accounting principles, (3) the formation of the new standard-setting organization, (4) the backgrounds of those who were appointed as Trustees of the FAF and as members of the FASB from 1972 to 1980, and finally (5) the important changes that the Trustees made in 1977 and later years in the way in which such appointments were to be made. The author's conclusions and a section on research method and resources, followed by the references, complete the paper. The Institute's blue-ribbon committee, which was chaired by Francis M. Wheat, a former member of the Securities and Exchange Commission, was known as the Study on Establishment of Accounting Principles, but informally as the Wheat Study or Wheat Committee.

THE DEMISE OF THE APB

An important reason why the APB failed is that its members were perceived to be susceptible to pressure from powerful interests outside the Board. Chatov (1975, 222) has written that the APB "was handicapped by attacks from the corporate sector, operating mainly through the Financial Executives Institute." During the 1960s, when the APB sought to issue mandatory pronouncements, known as Opinions, on highly controversial issues, the Board began to be criticized by preparers, auditors, and academics, among others, for taking arbitrary, compromised, and shifting positions (e.g., Zeff 2003, 197–198; Zeff 2007). Charles T. Horngren (1974, 94), an academic member of the APB from 1968 to 1973, said that the Board died because of the perception that its members "are beholden to their clients and are, therefore, *ipso facto* not independent." Among the six "causes for concern over the APB" enumerated by a special American Accounting Association (AAA) committee appointed in 1970 "to study the feasibility and desirability of a commission to inquire into the formulation of accounting

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principles" was the following: "Members of the Board, who continue as members of their firms, cannot, it is said, be truly independent, since their views are likely to be colored by the interests of important clients in relation to matters brought before the Board. This points to the need of a full-time Board, free from any other allegiances" (Committee on Establishment of an Accounting Commission 1971, 609, 611, 612).[1]

In 1970, the heads of three of the Big 8 audit firms, in an extraordinary move, wrote letters to the Institute, saying that they no longer had confidence in the APB (Zeff 2016a, 137). Wallace E. Olson, a partner in a non-Big 8 audit firm who was one of the seven members of the Wheat Study (and who became the Institute's full-time chief executive in 1974), subsequently wrote that "it was clear [from the evidence gathered by the Wheat Study] that non-CPAs viewed the APB as a captive of the public accounting profession, and they suspected board members as being unduly influenced by the makeup of their firms' clienteles" (Olson 1982, 67). In its report, the Wheat Study (AICPA 1972, 8) concluded that "[a] part-time, volunteer APB will continue to be subject to doubts as to the disinterestedness of its members—their freedom from client and other pressures."

THE WHEAT STUDY RECOMMENDATIONS

Following extensive data-gathering, which included a public hearing, the Wheat Study rendered its report in March 1972, in which it boldly recommended the establishment of the FASB as a full-time accounting standard setter (the first in the world), under the aegis of the newly created FAF, and not as a unit within the AICPA. The Wheat Study argued that the "major positive arguments for a full-time board are independence and efficiency. It is the doubts cast on the disinterestedness of a part-time board which trouble its critics the most" (AICPA 1972, 61). It added that the FAF should be "separate from all existing professional bodies" (AICPA 1972, 69). Yet the members of the Wheat Study believed that, in order to secure the obligatory AICPA endorsement of its recommendations, concessions in terms of influence, and even control, over making the appointments would have to be made to the Institute to enable it to continue to play an important role in the standard-setting process. The Wheat Study said that it is "important to preserve the self-regulatory character of the standard-setting process through an organizational interlock between the new Foundation and the AICPA" (AICPA 1972, 84). Therefore, the Wheat Study recommended that the Institute's Board of Directors be authorized to appoint eight of the nine the FAF Trustees, the ninth Trustee being the elected Institute President, serving *ex officio*.

The question addressed in this paper is whether the Wheat Study went too far to accord this influential role to the AICPA such that it may have impaired the FASB's appearance of independence from the Institute and from the practicing profession.

During the meeting of the Institute's Council in May 1972, at which the Wheat Study's recommendations were taken up, Richard T. Baker, the managing partner of Ernst & Ernst, one of the Big 8 audit firms, spoke in strong opposition (Zeff 2015, 170–171). Baker's argument illustrates the challenge facing the Wheat Study when it provided a way for the AICPA and the practicing profession to feel they were keeping a hand in the standard-setting process, in order to counter just this kind of reaction. Baker said, "The price the profession is asked to pay for this new structure is too high. The probability of its success is too low....Will the new Board, cut completely free from real world ties, have any better basis for reaching acceptable conclusions?...The profession will be putting its complete trust in seven unspecified people who will have no direct affiliation whatever with practice; who, so far as we can know now, will have no better research support than the APB, and who will have no legal or assured professional support."[2] Despite Baker's argument—and he was not alone in speaking against immediate adoption of the Wheat recommendations—Council endorsed the recommendations by "nearly unanimous consent" and authorized its Board of Directors to implement them as soon as possible (Zeff 2015, 171).

Zeff (2015, 172) stated that, after adopting the Wheat recommendations, "The Institute lost its control over the standard setter but retained considerable leverage in the appointment of the trustees of the Financial Accounting Foundation and therefore indirectly in the appointment of FASB members." This observation provides the hypothesis for this paper. The research question is, therefore, how did the Institute actually exercise this leverage during the first eight years, 1972 to 1980, and did it seem to affect *the appearance* of independence of both bodies from the AICPA and the practicing profession? It is not the purpose of this study to inquire into whether any such leverage led to a lack of independence *in fact,* which would be exceedingly difficult to demonstrate.

FORMATION OF THE NEW ORGANIZATION

The FAF was incorporated on June 30, 1972 under the State of Delaware's General Corporation Law and qualified as an organization to which tax-deductible donations could be made under Section 501(c)(3) of the Internal Revenue Code of 1954.

[1] David Solomons chaired this AAA committee. He was then appointed to the Wheat Study, where he was a major player and the chief draftsman.

[2] Proceedings, 1972 Spring Meeting of Council of the American Institute of Certified Public Accountants, May 1–3, Boca Raton, FL (Martin C. Johnson Reporting Service, Inc., New York, New York), 57, 60, 61–62. This transcript was obtained from AICPA Library Services at The University of Mississippi.

In October 1972, the FAF issued an exposure draft, setting forth the proposed Certificate of Incorporation, By-Laws, and Rules of Procedure of the FASB, and called a public hearing for December 15 (FAF 1972).

Following the FAF's public hearing, the following prescriptions were made part of the By-Laws (FAF 1973), thus implementing the Wheat recommendations:

- The AICPA's Board of Directors shall compose the "electors," to select eight of the nine part-time FAF Trustees, having staggered three-year terms, renewable for one term only.
- The senior elected officer of the AICPA shall be a Trustee *ex officio* during his term of office.
- Of the eight elected Trustees, four are to be CPAs in public practice; two shall be, or have extensive experience as, financial executives (one each chosen from short lists provided by the Financial Executives Institute and the National Association of Accountants); one shall be, or have extensive experience as, a financial analyst (chosen from a short list provided by the Financial Analysts Federation); and one shall be, or have extensive experience as, an accounting educator (chosen from a short list provided by the AAA). [paraphrased from the By-Laws]

The AICPA's Board of Directors thereupon created a Financial Accounting Foundation Trustee Review Committee, with between five and eight members, to select the eight FAF Trustees. The four organizations listed in the third bullet point, above, together with the AICPA, were designated as the FAF's "sponsoring organizations."

Although it was not stated in either the exposure draft or the final By-Laws whether a simple or super majority of the FAF Trustees was required to appoint a person to the FASB, the Wheat Study had recommended a two-thirds majority, or six out of nine (AICPA 1972, 9, 69). Its reasoning was apparently that, while the AICPA President plus the four elected CPAs from practice could not alone appoint the Board members, they could at least constitute a bloc against nominations originating with the other four Trustees. But the two-thirds voting stipulation was not carried into the FAF's By-Laws, and it is not known why this Wheat Study recommendation was not respected.

As to the full-time, seven-member FASB, the By-Laws (FAF 1973) specified the following qualifications and terms:

- Four members shall be CPAs from public practice or be principally experienced as public practitioners.
- The remaining three members may or may not be CPAs but are to be persons who are well versed in the problems of financial reporting.
- The members are to be appointed for five-year staggered terms, renewable for one term only.

All but the first of the foregoing qualifications were in line with the Wheat recommendations. While Wheat had recommended that four members shall be CPAs drawn from public practice, the By-Laws softened this requirement somewhat, saying that they may also be CPAs who were principally experienced as public practitioners.

That five of the nine FAF Trustees (including the AICPA's elected President serving *ex officio*) and four of the seven FASB members were to be drawn from CPAs in public practice, or be principally experienced as public practitioners, implied a continuation of significant influence from the practicing profession. That the AICPA's Board of Directors was to appoint eight of the nine FAF Trustees signified that the Institute was not giving up complete control, or leverage, over the standard-setting process. Yet the final Rules of Procedure of the FASB stipulated that the FASB "is an independent body created within the private sector to serve an important public interest."[3]

The By-Laws stated that the Board's pronouncements must secure approval by five of its seven members, again following Wheat. Donald J. Kirk (1990, 109), one of the charter members of the FASB, later wrote that one of reasons behind the required five-vote majority was "to mitigate concern that the four Board members with primarily public accounting backgrounds might vote as a bloc." Its pronouncements were to be called Statements of Accounting Standards, a name first mentioned in the FAF's 1972 exposure draft (FAF 1972, 23). The final By-Laws, issued in 1973, modified the name to Statements of Financial Accounting Standards.

The Wheat Study gave the following reason for the qualifications it set for the Board: "we have intentionally provided that a majority of them would be CPAs drawn from public practice. We think it essential at this time, in the interests of enforcement of the new Standards Board's pronouncements by the public accounting profession, that its composition should not be such as to endanger its acceptability to the profession" (AICPA 1972, 72). The members of the Wheat Study knew that if its report were to have effect, it would have to be approved by the AICPA, because since 1939 the accounting standard setter had always been a part-time unit within the Institute, that is, within the organized accounting profession. The establishment of a full-time accounting standard setter in 1972 was without precedent anywhere in the world. John C. Biegler (1983, 6), the senior partner of the Big 8 audit firm Price Waterhouse & Co., a key member of the Wheat Study and also a member from 1970 to 1974 of the AICPA's Board of Directors, explained as follows:

[3] Quoted in the FASB's *Status Report* dated June 18, 1973, p. 4.

Not only were these arrangements designed to ensure that there would be continuing involvement by those who had taken the lead in standard setting in the past, but it was hoped that such arrangements would give some comfort and assurance to those in the accounting profession who were deeply troubled by the prospect of the profession giving up complete control of its traditional standard-setting role.

The FASB succeeded the APB on July 1, 1973.

FINANCIAL ACCOUNTING FOUNDATION

The terms of service by the Trustees were set to end on September 30 and begin on October 1, so as to coincide with the AICPA's annual meeting, when its officers were elected. But in 1978, the Trustees' terms were re-set to end on December 31 and begin normally on January 1. The Trustees were to choose their own officers.

When examining those who were appointed to the initial Trustees, one notices the palpable influence of the AICPA. The initial slate, chosen in July 1972, was as follows:

John C. Biegler, senior partner of Price Waterhouse & Co.—formerly a member of the AICPA's APB, a member of AICPA's Board of Directors, and a member of the Wheat Study.

Ivan O. Bull, managing partner in the medium-sized audit firm of McGladrey, Hansen, Dunn & Co., based in Davenport, Iowa—a member of AICPA's Board of Directors who was to become the 1975–1976 AICPA Chairman.[4]

Samuel A. Derieux, partner in the medium-sized audit firm of Derieux & Watson, based in Richmond, Virginia—a member of AICPA Council who was to become the 1973–1974 AICPA Chairman.

James Don Edwards, accounting professor at The University of Georgia—a member of the AICPA's Trueblood Study Group on the Objectives of Financial Statements, and a member of AICPA Council.

William H. Franklin, chairman of the board of Caterpillar Tractor Co.—an AICPA member.

Ralph E. Kent (Trustee President),[5] senior partner in the Big 8 audit firm of Arthur Young & Company—the 1968–1969 AICPA President.

LeRoy Layton, managing partner in the medium-sized audit firm of Main Lafrentz & Co., based in New York City—a former APB Chairman and the 1972–1973 AICPA President.

Thomas A. Murphy, vice chairman of the board of General Motors Corporation.

Thomas C. Pryor, senior vice president and chairman of the investment policy committee of White, Weld & Co., an investment banking firm—a member of the Wheat Study.

Five of the nine Trustees occupied high positions, previously or currently, in the AICPA's leadership, and seven Trustees, all but Murphy and Pryor, were AICPA members.

In October 1973, LeRoy Layton was succeeded by Richard Baker, managing partner of Ernst & Ernst, who was a member of AICPA Council. In October 1974, after Derieux and Murphy stepped down from Trustee membership, the following two replacement appointments were made:

Philip L. Defliese, managing partner of the Big 8 audit firm of Coopers & Lybrand—formerly APB Chairman and the 1974–1975 AICPA Chairman.

Wilbert A. Walker, president of United States Steel Corporation—an AICPA member and formerly an APB member.

Hence, in 1974–1975, four of the five Trustees who were CPAs in public practice were from Big 8 audit firms, and three Trustees were former members of the APB.

Subsequent Trustee appointments and other changes through 1980 were as follows:

October 1975

Stanley J. Scott, managing partner in the medium-sized audit firm of Alford, Meroney & Company, based in Dallas, Texas—Vice Chairman of the AICPA and a member of its Board of Directors (succeeding Defliese on the Trustees).[6]

Walter P. Stern, senior vice president and director of Capital Research Company (succeeding Pryor).

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[4] Beginning in 1974–1975, the senior elected AICPA officer was known as Chairman, no longer President. As this is a historical study, the term "chairman" will be used, because it was the usage during the period of this study.

[5] Apparently, Walter J. Oliphant, a senior partner in the Big 8 audit firm of Arthur Andersen & Co. and the 1971–1972 AICPA President, served as Acting Chairman of the FAF Trustees for one day, on July 28, 1972. This may have been only a formality. Ralph Kent's term as President began on the same date.

[6] Scott became a Trustee *ex officio* in 1978 because of being the AICPA's Chairman for 1977–1978. In 1979, he began a second three-year term on the Trustees.

October 1976 (raising the number of Trustees from nine to 11, after including a second nominee from the FEI).[7]

Michael N. Chetkovich, managing partner of the Big 8 audit firm of Haskins & Sells—the 1976–1977 AICPA Chairman (succeeding Bull).

Daniel F. Crowley, executive vice president-finance, McGraw-Hill, Inc. (succeeding Walker).

J. O. Edwards, controller of Exxon Company U.S.A.—an AICPA member (succeeding Franklin).

Russell E. Palmer, managing partner of the Big 8 audit firm of Touche Ross & Co.—a member of AICPA Council (succeeding Baker).

Alva O. Way, III, vice president-finance of General Electric Company.

John C. Whitehead, partner of Goldman, Sachs & Co., an investment banking firm—representing the Securities Industry Association (SIA), which had just become the FAF's sixth sponsoring organization.

On January 1, 1977, John Biegler succeeded Ralph Kent as FAF President.

January 1978

Norton M. Bedford, accounting professor at the University of Illinois—formerly a member of the AICPA's Board of Directors and formerly a member of the AICPA's Committee on Accounting Procedure (succeeding James Don Edwards).

Richard S. Hickok, managing partner of the medium-sized audit firm of Hurdman and Cranstoun, based in New York City—a member of AICPA Council (succeeding Kent).

Alva Way succeeded John Biegler as FAF President—the first President who was not a leading figure in the AICPA.

January 1979 (raising the number of Trustees from 11 to 12, after including a member in the banking industry).

Joseph P. Cummings, vice chairman of the Big 8 audit firm of Peat, Marwick, Mitchell & Co.—the 1978–1979 AICPA Chairman and formerly an APB member (succeeding Chetkovich).

William H. Dougherty, Jr., president of NCNB Corporation, a commercial bank, and an AICPA member (the banker).

Harvey E. Kapnick, chairman and chief executive of the Big 8 audit firm of Arthur Andersen & Co. (succeeding Biegler).

January 1980

Kenneth S. Axelson, senior vice president and director of finance and public affairs, J. C. Penney Co., Inc.—an AICPA member and formerly an APB member (succeeding Crowley).

Paul J. Dunphy, senior vice president-finance, Anchor Hocking Corporation (succeeding Way).

William R. Gregory, partner in the medium-sized audit firm of Knight, Vale & Gregory, based in Tacoma, Washington—1979–1980 AICPA Chairman (succeeding Cummings).

Paul R. Judy, co-chairman of Warburg Paribas Becker Incorporated (succeeding Whitehead).

Charles G. Steele, managing partner of the Big 8 audit firm of Deloitte Haskins & Sells—a member of AICPA Council (succeeding Kapnick).

Russell Palmer succeeded Alva Way as FAF President.

Of the 30 total members of the Trustees from 1972 to 1980, 22 were AICPA members, of whom 16 were active in the AICPA leadership. Nine were partners in Big 8 audit firms.

In December 1976, a 1,760-page staff study published by a U.S. Senate subcommittee headed by Senator Lee Metcalf (Democrat, Montana), entitled *The Accounting Establishment,* following an extensive investigation, was strongly critical of the influence exerted on the FASB by the AICPA and by the Big 8 audit firms. The study concluded as follows (U.S. Senate 1976, 15):

> The FASB's organizational separation from the private interest groups sponsoring it is the basis for the claim that it establishes accounting standards "independently." However, the separation is one in name only. This study finds that the "Big Eight" accounting firms, the AICPA and, to a lesser extent, the other sponsoring groups have control over the operation of the FASB. Such control is exercised in terms of money, personnel, and organizational support.

The appointment of Alva Way, who was not an AICPA member, as FAF President in January 1978 may well have been precipitated by the criticisms in the Metcalf committee's staff study. The Metcalf criticisms provoked consternation among leaders of the Institute (Olson 1982, 53) and, one supposes, also among the FAF Trustees and FASB Board members.

In the wake of the Metcalf subcommittee's staff study, several accounting researchers conducted empirical studies to see if evidence could be turned up to show that the FASB members from Big 8 firms had, as alleged by the Metcalf subcommittee

[7] See the FAF/FASB's *Annual Report 1976*, p. 4.

staff, controlled or even influenced the Board via the formation of coalitions or bloc voting. They could find no such evidence. These empirical studies are discussed in Zeff (2016b, 130). Moreover, subsequent research studies (Hussein and Ketz 1980; Brown 1981; Newman 1981) have supported the view that the Big 8 audit firms did not dominate the FASB. A further study (Haring 1979, 515) concluded that, while the views of the major audit firms seemed to influence the FASB, it also reached the conclusion, albeit qualified, that "[a]ccounting firms do not, in general, appear to be dominated by their clients." To be sure, some of the data in these studies related to the FASB's standards issued subsequent to 1976, when the Metcalf staff study was published.

In late 1976, the Trustees appointed a Structure Committee chaired by Russell Palmer to perform a comprehensive review of the FAF/FASB organization.[8] One of the reasons given for the appointment of the committee was to respond to the Metcalf criticisms (FAF 1977, 11). The publication of the Metcalf staff study in December 1976 made it clear to the Structure Committee that major changes in the organization's links with the AICPA and the practicing profession had to be made. Donald Kirk subsequently wrote, commenting on the Wheat Study's design for what he called the "special relationship" between the AICPA and the FAF, "[l]ater events, for example the Metcalf inquiries, have emphasized the need for an arm's-length relationship between the two organizations. . . .Explaining and demonstrating that arm's-length relationship between the two is another continuing challenge to insure independence of the FASB" (Kirk 1983, 16).

One of the recommendations in the report of the Trustees' Structure Committee (FAF 1977), which was issued in April 1977, was that the Trustees were no longer to be appointed by the AICPA's Board of Directors. Instead, the six sponsoring organizations were each to name a member to the Foundation, and this panel would become the "electors" of the Trustees, as defined in the By-Laws. It would elect the Trustees from nominations submitted by the very same sponsoring organizations. This important change, which took effect later in 1977, removed the AICPA's authority to appoint the Trustees. The composition of the Trustees was to remain the same: five members from the AICPA (including the elected AICPA Chairman serving *ex officio*), two from the FEI, and one each from the NAA, the FAF, the AAA, and the SIA. In recommending this change, the Structure Committee said, "[t]he AICPA's veto was by and large symbolic, and that symbolism is no longer necessary. None of the CPAs we asked felt that the AICPA should retain that veto power" (FAF 1977, 33).

Of the 20 FAF Trustees serving between 1972 and 1977 (i.e., while the AICPA's Board of Directors appointed the Trustees), 12 were AICPA members, of whom ten were active in the Institute's leadership. Five of the ten were the elected AICPA President/Chairman, who were Trustees *ex officio*.

Another of the Structure Committee's recommendations was to enlarge the Trustees to include a member of the banking industry. Accordingly, on January 1, 1979, as noted above, William Dougherty was elected a Trustee-at-large, meaning that he did not represent a sponsoring organization.[9]

Pressure brought by two U.S. Senators in a public hearing in April 1977 (see below) which led to the decision to open FASB meetings to public observation also prompted the Trustees to begin holding their own meetings "in the sunshine" in December 1977.

The Wheat Study's recommendation that the elected AICPA senior officer be made an FAF Trustee *ex officio* finally came to an end in 1985, when the AICPA's Board of Directors "formally offered to relinquish the *ex officio* seat on the Foundation board of trustees," and the Trustees "voted to accept that offer and to make the vacated *ex officio* seat an at-large trusteeship to be filled by vote of the board of trustees."[10] Thus, the stipulated AICPA membership on the Trustees dropped from five to four, but in a board that was growing in total number.[11]

FINANCIAL ACCOUNTING STANDARDS BOARD

The initial membership of the FASB was composed as follows:

Marshall S. Armstrong (Board Chairman), former managing partner of the medium-sized audit firm of Geo S. Olive & Co., based in Indianapolis, Indiana—the 1970–1971 AICPA President and formerly an APB member.[12]

Donald J. Kirk, former partner of Price Waterhouse & Co.[13]

[8] FAF/FASB's *Annual Report 1977*, p. 2.

[9] For an enumeration of the changes resulting from the Structure Committee report, see the FAF/FASB's *Annual Report 1977*, pp. 2–3. Also see "Summary of Changes Made as Result of Structure Committee Recommendations," FASB's *Status Report No. 68*, June 21, 1978, pp. 2–4.

[10] "Establishing Standards for Financial Reporting," *Financial Accounting Foundation Annual Report 1985*, p. 5.

[11] With the founding in 1984 of the Governmental Accounting Standards Board, the number of FAF Trustees increased by three with government backgrounds. In 1985, the total number of FAF Trustees stood at 15.

[12] Armstrong's appointment as Chairman became effective on November 1, 1972.

[13] Kirk has said that John Biegler, the senior partner in his firm and a member of the FAF Trustees, encouraged him to seek a Board appointment (Kirk 1983, 11).

Arthur L. Litke, former chief of the Office of Accounting and Finance, Federal Power Commission—former member of the AICPA's Committee on Auditing Procedure.

Robert E. Mays, former controller of Exxon Corporation—an AICPA member.[14]

John W. Queenan (Board Vice Chairman), former managing partner of Haskins & Sells—the 1961–1962 AICPA President and formerly a member of the Committee on Accounting Procedure and of the APB.

Walter Schuetze, former partner of Peat, Marwick, Mitchell & Co.

Robert T. Sprouse, former accounting professor at Stanford University.

All of the Board members but Robert Sprouse, who was not a CPA, were AICPA members, including two who had served on the APB.[15]

After John Queenan retired at the end of 1974 at age 68, he was succeeded by another former Haskins & Sells partner, Oscar S. Gellein—a former APB member and recently on the AICPA's Trueblood Study Group on the Objectives of Financial Statements. Sprouse succeeded Queenan as the Board's Vice Chairman.

It may not have been a coincidence that the President and Chairman, respectively, of the Trustees and the Board were both former AICPA Presidents, further underscoring the influence emanating from the AICPA's leadership.

In April 1976, Walter Schuetze, age 43, announced his departure from the Board to take effect on June 30, two years prior to the end of his five-year term, and said he was re-joining Peat, Marwick, Mitchell & Co. That announcement precipitated a concern in Congress that the FASB's perceived independence could be compromised by a "revolving door" arrangement with Board members' former employers, but Chairman Armstrong denied that there was any such problem.[16] Schuetze was succeeded by Ralph E. Walters, director of professional standards in the Big 8 audit firm of Touche Ross International, on April 1, 1977.

On December 31, 1977, Arthur Litke and Robert Mays both retired at the end of their first term. They had both dissented, together with Ralph Walters, to the position adopted in Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies,* issued in December 1977, that successful efforts costing, not full costing, should be used.[17] Litke and Walters said they instead preferred showing companies' mineral reserves at fair value, a position decidedly opposed by the large petroleum companies. It was reported in the press that Litke, who was only 55 years of age, was informed that he would not be reappointed to a second term. The newspaper report said, "There had been rumors that Mr. Litke was being removed from the board because of his association with the [Federal Power Commission], which requires a different accounting approach than the method the standards board is proposing, and because one of the sponsoring organizations of the standards board, the Financial Executives Institute, wanted an individual representing its own interests on the board" (*The New York Times* 1977). For Mays, age 66, his departure from the Board was likely a normal retirement. Litke was succeeded on January 1, 1978 by David Mosso, fiscal assistant secretary of the U.S. Treasury Department and an AICPA member. Mays was succeeded by Robert A. Morgan, controller of Caterpillar Tractor Co., whose term began on February 1, 1978.

Marshall Armstrong retired on December 31, 1977 at age 73 and was succeeded on January 10, 1978 by John W. March, a senior partner of Arthur Andersen & Co. At the beginning of 1978, there was thus a turnover of three of the Board's seven members, including the Chairman.

On January 1, 1978, Donald Kirk succeeded Marshall Armstrong as FASB Chairman, and he became the second in a line of five former audit firm partners who chaired the Board from November 1972 onward (followed by Dennis R. Beresford, Edmund L. Jenkins, and Robert Herz), until the string was broken in December 2010—a span of 38 years—when Leslie F. Seidman succeeded Herz, although Seidman was a member of the AICPA and had once served on the staff of a Big 8 audit firm. Four of the five consecutive Chairmen (all but Armstrong) came from Big N audit firms.

Oscar Gellein, age 67, retired from the Board at the end of 1978 and was succeeded by Frank E. Block, vice president of Bache Halsey Stuart Shields, Inc., an investment bank, whose term began on March 26, 1979. With this appointment, the FAF

[14] It is of interest that Robert Mays, already a CPA, opted to become a member of the AICPA in 1973, almost as if he believed that Board members should belong to the Institute. For biographical sketches of the initial Board members, see the FASB's *Status Report* dated June 18, 1973, pp. 2–3.

[15] The Trustees' first choice for the academic member was Sidney Davidson, of The University of Chicago, who was a member of AICPA Council from 1969 to 1972, but he declined (D. Flesher, T. Flesher, and Previts 2018, 39). Sprouse, as the alternate choice, then accepted the appointment. Had Davidson instead accepted the appointment, *all* of the seven charter members of the Board would have been AICPA members. Davidson had also been a member of the APB.

[16] See U.S. Senate (1976, 147–151) and the testimony on April 21, 1977 in U.S. Senate (1977, 334–338).

[17] In April 1977, the FAF's Structure Committee recommended a change, which was promptly implemented, in the required majority for approving FASB pronouncements from 5-2 to 4-3, because the higher threshold had "caused delays in reaching decisions" (FAF 1977, 34). The 5-2 requirement had prevented some Statements, including No. 19, from being issued, as it had secured only four assenting votes. See Kirk (1990, 109). In 1981, the Structure Committee reaffirmed this decision after one of the Big 8 audit firms, Ernst & Whinney, recommended a restoration of the 5-2 voting requirement. Financial Accounting Foundation, Report of the Structure Committee, December 1981 (typescript document supplied to the author by the FAF).

Trustees implemented one of their Structure Committee's recommendations, namely, that the Board no longer need be composed by any specified number of CPAs from public practice. The actual number had dropped from four to three by 1979, thus further loosening the link with the practicing profession. The Trustees were henceforth "to seek the best qualified persons having extensive knowledge of financial accounting and reporting without regard to prior area of activity."[18]

The next new member of the Board did not join until 1983. Of the Board's charter members, only Kirk and Sprouse remained by 1980. Of the 13 individuals who served on the Board during the 1970s, ten were AICPA members. Six of the ten came from Big 8 audit firms.

All told, nine former members of the APB were appointed to the Trustees or to the Board between 1972 and 1980. Five more former APB members served on the Financial Accounting Standards Advisory Council—the advisory body to the FASB—during the same period.

While the Wheat Study had said, "Though the Standards Board will hold public meetings, it must also have the right to meet in executive session" (AICPA 1972, 74–75), the FAF's By-Laws did not call for open Board meetings. Hence, the Board met in closed session from 1973 to 1977, its only open meetings being public hearings—very much as the Institute's APB had done during its tenure. At the outset, both the Board's Chairman and Vice Chairman had previously been APB members, and they may have been inclined to carry forward the APB's operating model.

In April 1977, however, Senators Charles H. Percy (Republican, Illinois), the ranking member of the Committee on Governmental Affairs, and Lee Metcalf, chairman of its Subcommittee on Reports, and Accounting and Management, raised the issue of opening FASB meetings to public view with Board Chairman Marshall Armstrong and FAF President Alva Way in a hearing. Armstrong responded that, following Congressional passage in 1976 of the Government in the Sunshine Act, he began looking into whether the Board should also open its meetings.[19] Although the FAF's Structure Committee had not specifically recommended in its April 1977 report (issued prior to the hearing) that the Board meet in open session, the Trustees announced in July that they decided unanimously to open the meetings of both the Board and the Trustees to the public.[20] The Board began meeting in open session in January 1978.

CONCLUSIONS

During the period from 1972 to 1980, the pervasive presence of AICPA members and especially the Institute's leaders, past and present, in the membership of the FAF and FASB makes it difficult for an observer not to regard the FAF/FASB organization as virtually a branch operation of the Institute. The initial authority given to the Institute's Board of Directors to appoint eight of the nine FAF Trustees, in addition to the elected senior officer of the Institute serving as a Trustee *ex officio,* makes it difficult not to use the term "control" when characterizing the apparent relationship between the AICPA and the FAF/FASB organization. Indeed, if one were to use an analogy from accounting standards, when an entity is able appoint virtually all of the directors of a nonprofit institution, it is presumed to have established "control" and the two parties would be labeled as parent and subsidiary in a set of consolidated financial statements.

This direction from the Institute was further manifested by the Trustees' decision to name one of its past Presidents as the initial Chairman of the Trustees, Ralph Kent, and another of its past Presidents as the initial Chairman of the FASB, Marshall Armstrong, who served for four and a half and just over six years, respectively. They probably did much to set the tone for the FAF and FASB for years to come. Another manifestation was the Institute's appointment of as many as nine members of its former standard setter, the APB, to the Trustees or the Board, which, according to John Biegler (quoted above), conformed with one of the intentions of the Wheat Study.

In the light of the way in which the AICPA thus used its leverage to appoint the FAF Trustees and indirectly the FASB members, it would be difficult to maintain that the FAF and the FASB in their early years appeared to be independent from the Institute and from the practicing profession.

Mainly, it seems, because of the criticism by the Metcalf subcommittee's staff study in 1976 of significant influence from the Institute and the Big 8 firms in the affairs of the FAF/FASB organization,[21] the Institute's authority to appoint the Trustees was rescinded in 1977. But the automatic appointment of the elected Institute Chairman to the Trustees, serving *ex officio,* lasted until 1985.

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[18] FASB's *Status Report No. 68*, June 21, 1978, p. 2.

[19] Testimony on April 19 and 21, 1977 in U.S. Senate (1977, 153–154, 339–340, and 347–348).

[20] "Board Meetings to be Open; Other Changes Are Approved," FASB's *Status Report No. 50*, July 7, 1977, p. 1. In 1978, the SEC said the following about the FASB's new open-meetings policy: "This policy provides that any gathering of a majority of board members is considered a meeting (which must be announced and open to public observation) unless it is clearly of a communicative, administrative or social nature" (SEC 1978, 269).

[21] For a concurring view, see Miller, Bahnson, and Redding (2016, 33, ftn. 2).

To be sure, the 1970s were an era, unlike today, when many of the Institute's and Big 8 firms' leaders were strong technicians and had a solid knowledge of accounting principles, and a number of them were progressive thinkers. In view of this fact, the Wheat Study had to balance the harnessing of this expertise to the benefit of the FAF and the FASB against the possible risk to their appearance of independence by forging a link between the two and the AICPA.

Beyond the authority given to the Institute to appoint the Trustees, the Wheat Study, and then the By-Laws, specified that both the Trustees and the Board were to have majority representations from the practicing profession. Five of the nine Trustees, including the elected Institute President or Chairman serving *ex officio,* as well as four of the seven Board members, were to be CPAs drawn from public practice or with experience as public practitioners. Although the Wheat Study had recommended that six Trustees had to vote in favor of appointments to the Board, this proviso was not carried into the By-Laws, thus allowing the five-member CPA majority of the Trustees to approve the appointments. Beginning in 1976, the five CPA members no longer constituted a majority, when the number of Trustees was increased from nine to 11, with the two new Trustees being non-CPA appointments.

The prescription that the FASB must have four CPAs from public practice was rescinded in 1978, the same year in which the required 5-2 super-majority to approve pronouncements was changed to a simple majority, 4-3. Had the stipulation that four of the seven Board members be CPAs from public practice not been dropped, the four CPAs could, by themselves, have approved drafts and final Statements. The similar prescription for five CPAs in public practice to serve on the Trustees (which, as noted above, dropped to four in 1985) gradually diminished in importance as the size of the Trustees' membership gradually increased over the years. In 1996, the number of CPAs in public practice finally dropped to three, after SEC Chairman Arthur Levitt forced the Trustees to add several representatives of the broader public interest (Miller et al. 2016, 238–244).

RESEARCH METHOD AND RESOURCES

Historical research draws on unpublished documentary evidence, such as archives, and published literature, coupled with interviews (where practicable), in order to chronicle, interpret, and analyze the evolution of phenomena, ideas, and organizations. The resulting explanations will, it is to be hoped, lead to generalizable inferences about causality and therefore provide insight into the process of change. History attempts to make sense of the past in order to enrich our understanding of the present. Historians typically accept that there will be multiple interpretations and re-interpretations of the past, but they have developed standards of work and of criticism that allow meaningful debate about competing interpretations.

In addition to the cited books and articles, the research resources used for this paper were, in the main, published documentation and, to a limited extent, unpublished documentation. The published documentation consisted of the Wheat Study's report of 1972, the FAF/FASB's *Annual Reports* from the 1970s to the 1990s, the FAF's Structure Committee report of 1977, the AICPA's annual *Committee Handbooks* for the 1960s and 1970s, the *AICPA List of Members 1980,* the FASB's *Status Reports* newsletter for the 1970s, the SEC's report to Congress in 1978, and a Congressional staff study, hearing transcript, and report of 1976–1977, all of which are held in the author's personal library. In response to the author's request, AICPA Library Services at The University of Mississippi and FAF provided unpublished documentation.

The Acknowledgments footnote displays the names of readers of early drafts of the paper who submitted comments and, in the case of those who were early members or staff of the FASB, supplied recollections as well.

LIMITATION OF THIS RESEARCH

Had this research been undertaken much earlier than now, the author could have benefited from interviews with many of the principals. Unfortunately, only a handful of them are left. Although the author wrote to them to solicit their recollections, not all of them replied, and memories of what transpired some 40 years ago may not be all that reliable. Hence, the research for this paper has not benefited from the fruits of interviewing.

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