

# Center for Financial and Accounting Literacy

## **In Memoriam: Ben Neuhausen**

Seldom does the world see an accountant with such an engaging leadership style. From FASB fellow to Andersen partner and AcSEC chair, Ben Neuhausen was that rare breed of accountant who could thrive amidst the pressures of the technical side of public accounting. When clients, co-workers, or professional colleagues approached him with questions, they could sense his genuine interest in the issues; and his knowledgeable interactions with them would always leave a lasting impression, no matter what their individual areas of expertise.

Ben lost his courageous battle with cancer on July 31, 2009. His influence in the profession and in our lives will be missed by all, and especially by me. I had the good fortune to meet Ben when he was national accounting director of a major accounting firm. In that role, he became my boss, co-author, confidant, and friend for six years from 2003 through 2009.

### **Intellect, Literacy and Courage**

During the years we worked together, I often tried to analyze the keys to Ben's success. There were three basic areas in which nobody else could even come close.

1. First was his incredible intellect and straight thinking. Ben could use facts and logic to put differences of opinion in perspective and win over even the harshest of skeptics. Maybe he was born with that talent. Or maybe he acquired it at Arthur Andersen. He was an Andersen partner for 17 years from 1985 to 2002, mostly in the professional services group. That timeframe brings back memories of the Big 8 days and the hey-day of Andersen's reputation for being the "powerhouse" firm. It was never hard to picture Ben's intellect as an integral part of that powerhouse.
2. Second, and less obvious to others but equally impressive to me, is a trait that I would describe as his literacy, not just financial and accounting literacy but any kind of literacy. He had a keen appreciation of the written word, and a mastery that allowed him to cut through the technical jargon and go right to the bottom line on a wide range of subjects from "shadow banking" to "naked short-selling." That skill was especially crucial in our working relationship because my projects sometimes went beyond GAAP and because Ben was based in Chicago while I was in NY. Much of our communications took place by email. No matter how rambling the questions or how varied the subjects, Ben's reply was always precise, factual, and focused.
3. Third was the courage with which Ben stood up to challenges, both big and small. The challenges ranged from bad accounting, to the Enron hearings and break-up of Andersen, to the workaholicism that often afflicts those who choose public accounting and ultimately to the terrible diseases that took his wife and claimed him as a victim. He fought his own courageous battle with cancer while he was in the prime of his life,

at the top of his profession, and with three children still in their formative high school and college years. Through it all, Ben had the most indomitable spirit and positive attitude anyone could ever imagine. Even in the rehab center in the final month of his life, hobbled by a broken knee and unable to put any weight on one leg, he sounded cheerful and assured me he was “in good spirits.”

Though his distinguished career ended far too soon, Ben’s accomplishments were many, and he leaves us a rich legacy of memories that are overflowing with lessons in both literacy and life. Below are highlights of his views followed by a profile of his accomplishments.

### **Views: Lessons in Literacy and in Life**

There are countless lessons to be found in Ben’s views. Below are a few of my favorites. Some of his words are paraphrased, but I tried my best to be true to his thinking.

1. **“Principles-based” standards.** The debates about principles-based versus rules-driven standards are over-simplified and often create an artificial dichotomy. The highest quality accounting standards must reflect an “artful blend” of underlying principles and implementation guidance. Neither works well without the other:
  - If accounting standards contained rules with no underlying principles, they would render accountants incapable of answering questions that aren’t explicitly addressed because no framework would exist to analyze the questions. This would lead to accounting for “form over substance” and create an environment that fosters what some call the “lawyering of accounting.”
  - At the other extreme, if standards contain principles with little implementation guidance, they will fail to provide clear answers to specific questions. Such standards could result in diversity in practice and noncomparability that is opaque to users of financial statements. There is also a risk that such standards could lead to the second guessing of reasonable judgments, thereby creating unnecessary exposure for preparers and auditors.
2. **The US regulatory environment.** Accountants from outside the US who criticize US standards as overly rules-focused and tout the benefits of a principles-based approach generally operate in an environment with comparatively little oversight and relatively benign litigation exposure. No other country has a level of regulation and enforcement comparable to that provided by the US Securities and Exchange Commission. When their own standards are unclear, other accountants often look to US implementation guidance.
3. **Future US adoption of IFRS.** A market-driven approach to voluntary adoption seems better than an SEC mandate requiring adoption, at least as a starting point to see how investors and other user groups will react to IFRS for US companies. If the SEC decides to allow use of IFRS by US registrants, US accountants will need to assess whether this country should continue to have its own national standard-setter and/or some other source of implementation guidance. Factors to consider include: (a) whether the US needs more detailed guidance and more industry guidance than other countries to meet the expectations of the SEC and the US legal system, (b) whether and to what extent private companies might prefer to stay with US GAAP, and (c) whether there would be a continued (and perhaps increased) need for nonauthoritative guidance (such as the guidance AcSEC now provides) under a framework with more choices and alternatives.

4. **Complexity in accounting standards.** Some critics of US GAAP see the US interpretive and implementation guidance as a source of complexity. That view is misguided. The level of detailed guidance is more typically the result, not the source, of complex accounting. If principles create complex accounting or the underlying transactions are complex, then interpretive and implementation guidance is needed to achieve comparability. Without an organized process for providing such guidance, the costs and burdens of the accounting will fall on users (to decipher noncomparable accounting) and/or on preparers, auditors and others (to create the guidance on an ad hoc, piecemeal basis).
- The most significant causes of complexity in US GAAP include complicated principles, conflicting principles, and conflicting implementation guidance. An example of a complicated principle is that, "a lease that transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee... All other leases should be accounted for as operating leases."
  - The solutions to complexity include: (a) Making simplicity a consideration is establishing new standards, (b) Using existing or familiar principles, classifications, computations, etc., whenever possible, and (c) Amending existing standards to eliminate inconsistencies in principles, implementation guidance, computations, etc. The intent is not to prohibit new thinking but rather to encourage consideration of all precedents and parallels, determine whether the new principle has a substantial benefit, and, if so, amend the prior requirements when appropriate, thereby minimizing the number of different requirements that accountants must remember and apply.
5. **Judgment and substance.** Economic-substance-over-legal-form is an important principle for accountants. But this principle alone is not the solution to complexity. Some have suggested that the FASB clear away the rules and implementation guidance and let accountants simply use their professional judgment to more clearly convey the economic substance of transactions and events. That won't work because, in reality, accountants in good faith sometimes disagree vociferously over the economic substance of transactions. Further, even with extensive implementation guidance, it is not uncommon to see after-the-fact criticism of accounting for transactions that generated revenues or gains for enterprises that later failed. At times, the critics seem to suggest that the accountants should have known that the business was failing and should not have allowed the recognition of revenues or gains that gave the appearance of financial health, regardless of the merits of the accounting.
6. **The role of the board of directors.** Boards of directors in general and audit committees in particular play a critical role in financial reporting. They should be proactive in evaluating the quality (not just the acceptability) of a company's financial reporting and the adequacy of its disclosures. If there is a golden rule for financial reporting, especially in difficult times, it is to abide by the spirit as well as the letter of accounting standards. Admittedly, a lofty ideal, this approach leaves room for interpretation and it demands considerable discipline and professional judgment. A good corollary is that companies should make more detailed disclosures especially about items thought to influence the quality of their earnings or the reliability of their ratios. Directors can ask probing questions to help determine whether these reporting goals are met.

7. **Disclosures as short-term fixes.** Accounting standard-setters should keep in mind that disclosures, no matter how voluminous and well-intentioned, are no substitute for good accounting principles. Increasingly, to provide flexibility in scheduling projects, the FASB appears to be using added disclosure requirements as bridges to better accounting that have not yet been agreed upon with the International Accounting Standards Board (IASB). This approach is suboptimal because the disclosures become a compromise solution and the series of short-term fixes adds up to more changes than necessary.
8. **The need for a comprehensive disclosure project.** If disclosure requirements must be established on a piecemeal basis, this process should be accompanied by a sunset process for reevaluating disclosure requirements periodically and removing the ones that may have been rendered unnecessary by subsequent changes in accounting requirements of related standards. However, the best option would be for the FASB to undertake a more systematic and comprehensive approach to disclosures. Such an approach would include: (a) establishing the objectives and purposes of the disclosures, (b) integrating related disclosures rather than having them appear in separate notes to the financial statements, (c) eliminating redundancies and excessive detail, (d) conforming disclosure requirements for GAAP and IFRS, and (e) eliminating redundancies in GAAP and SEC requirements.
9. **XBRL and SEC's 21<sup>st</sup> century disclosure initiative.** XBRL is a promising approach for making financial statements more user-friendly. A report released by the SEC as part of its 21<sup>st</sup> Century Disclosure Initiative describes survey results that show many readers already find US disclosure documents too long and wordy, with the result that they prefer to get their information another way, such as through a broker or financial analyst. The report is entitled "Toward Greater Transparency." The findings of the report and the integration of GAAP into the SEC's interactive data rules reinforce the need for the disclosures project and for the FASB to work with XBRL US on the integration of the GAAP codification into the taxonomy. (XBRL US and the FASB announced the integration of the codification this week, and XBRL US CEO Mark Bolgiano described Ben as "a key supporter of the XBRL movement, and a valued advisor on the XBRL US GAAP project from the very start.")
10. **Putting it in perspective.** On a personal note, Ben credits his beloved wife, Madeline, for convincing him of the need to balance his work demands and professional activities with quality time spent with his family. He didn't let her down. He tried to minimize his out-of-town travel commitments, except when unavoidably detained, as he was in NYC after the terrorist attacks on September 11, 2001. (Ben was in NY for an AcSEC meeting.) When Andersen broke up, Ben joined a second tier firm so he could stay in Chicago and wouldn't need to uproot his family. Truthfully, he was still a demanding taskmaster for those of us lucky enough to work for him - but in ways that couldn't help but make us smile. For example, he would say, "Write the FASB meeting report for the other accounting firms, but don't spend more than two hours on it." (Ample time for one with Ben's knowledge, tight for us mere mortals; but it was always a privilege to put in the extra hours to earn Ben's trust and respect.)

With Ben's passing, the world has lost a great accountant and a wonderful person. He truly made the world a better place, and the lessons he taught us will live on and will continue to make it an ever better place. Anyone wishing to donate to the Ben Neuhausen Pancreatic Cancer Research Fund may do so at <https://www.lustgarten.org/SSLPage.aspx?pid=614>. Please enter the name of the fund in the box at the bottom for "Tribute Information."

## Profile of Accomplishments



**Ben Neuhausen**

Ben had impeccable professional credentials, and he was accomplished in a number of roles. Below are brief highlights of a life well-lived.

- **MBA and CPA.** Ben received his MBA in accounting from New York University, and he was certified by the states of Illinois and New York.
- **FASB fellow.** Early in his career, Ben had the honor of becoming the first FASB fellow from Arthur Andersen.
- **Partner.** Ben was a partner first in Arthur Andersen and later in BDO Seidman following Andersen's break-up.
- **AcSEC member and chair.** Later in his career, Ben played a leadership role in the AICPA's Accounting Standards Executive Committee (AcSEC). He was a member for 11 years and chairman from 2005 to 2008. He was also an active and welcome member of the IMA's Financial Reporting Committee.
- **Author.** Together, we wrote a huge arsenal of works about accounting - some technical, some plain English. These works included internal "FASB Flash Reports," external "Client Advisories," "Financial Reporting" newsletters, and a slew of bylined articles for Tax Analysts and other publications ranging from a chapter on Financial Reporting for the "Corporate Controllers Manual" to a book of interpretations on "Accounting for Business Combinations" for Accounting Research Manager.
- **Award recipient.** Just this past year upon completion of his AcSEC chairmanship, Ben received the AICPA Special Recognition Award for his outstanding contributions to standard setting in the accounting profession.
- **Fund-raiser.** Ben organized two teams for the 2008 Lustgarten Foundation's annual Chicago walk to raise funds for pancreatic cancer research, and his efforts made the walk a huge success with the largest number of walkers ever in the history of the event. All told, he raised more than \$100,000 that year. Lustgarten has since created a Ben Neuhausen Research Fund in his honor. Donations may be made by sending a check payable to the Lustgarten Foundation with "Benjamin Neuhausen Research Fund" in the memo line, or via [www.lustgarten.org](http://www.lustgarten.org) by typing the name of the fund in the "Tribute Information" area.
- **Father.** Last on this list, but typically foremost in his mind, Ben was the proud father of a daughter and two sons. He spoke glowingly of his three children and their plans, and he made it a priority to set aside quality time to bond with them and with the many others in his family, faith and circle of friends who formed his central support group.

## Helpful Links

Article about Ben in the Journal of Accountancy, August 2008, "The Standard-Bearer Chairman examines AcSEC's changing role and the progress of international convergence," <http://www.journalofaccountancy.com/Issues/2008/Aug/TheStandard-Bearer>.

Article about Ben in the Journal of Accountancy, August 2008, "Neuhausen Recognized for Contributions to Standard Setting," <http://www.journalofaccountancy.com/Issues/2009/Jun/Neuhausen>.

Article by Ben in Directorship magazine, June 2009, "Achieving Greater Transparency," <http://www.directorship.com/achieving-greater-transparency/>.

Tribute by Financial Executives International, "Profession Mourns Ben Neuhausen," <http://financialexecutives.blogspot.com/2009/08/profession-mourns-ben-neuhausen.html>.

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Sign Ben's Guest Book in the Chicago Sun-Times, <http://www.legacy.com/gb2/default.aspx?bookid=4565680965823&cid=full>  
Or the Chicago Tribune <http://www.legacy.com/obituaries/chicagotribune/obituary.aspx?n=benjamin-s-neuhausen&pid=130744557>

Make a donation to the Ben Neuhausen Pancreatic Cancer Research Fund, <https://www.lustgarten.org/SSLPage.aspx?pid=614>. Please enter the name of the fund in the box at the bottom for "Tribute Information."