

A Conversation with George J. Batavick, the FASB's Newest Member



George J. Batavick

On August 1, 2003, George J. Batavick became the newest member of the FASB.

His appointment follows a 27-year career where he served most recently as Comptroller of Texaco Inc., after having held several key positions in the company, including Deputy Comptroller and Director of Internal Auditing. Prior to those posts, Batavick was with Getty Oil Company in Los Angeles (later acquired by

Texaco). He began his career at Arthur Andersen in Philadelphia after graduating from St. Joseph's University with a bachelor's degree in accounting. He is a Certified Public Accountant.

Recently, we had the opportunity to hear Batavick's views on a variety of subjects, from his experience as a preparer to the professional challenges he looks forward to on the job. An outgoing person who projects a genuine passion for his work, he is excited about his recent appointment to the FASB—a position that seems well suited to someone with a self-admitted, life-long affinity for numbers and a desire to continually learn and make things better.

Q To start at the beginning, how did you decide on a profession in accounting?

Throughout grammar school and high school I really enjoyed working with numbers and enjoyed reading about business. My father was very interested in the same things, and we would spend a lot of time together reading about and discussing various businesses. He invested in the stock market, in a small way, and I worked alongside him, learning as much as I could. In addition, my brother-in-law was a manager at Coopers & Lybrand, and we would talk about his various clients—all of which interested me. So, I later enrolled in college as an accounting major and, for two summers, worked in a small public accounting firm that provided me an opportunity to practically apply what I was learning. From those experiences, I made the decision that accounting was the profession for me.

Q Tell us about your experiences in accounting.

I had a variety of clients at Arthur Andersen in Philadelphia that cut across a spectrum of industries—from manufacturing and banking to service industries and health care. One of my clients was Getty Oil Company, and Getty eventually made me an offer to join its internal auditing department. This turned out to be a wonderful experience. During an audit, not only did I learn the operating side of the oil business, but I also learned the associated accounting.

From there, I moved into an accounting group responsible for the day-to-day accounting—not only for core oil business activities but also for a lot of other businesses in which Getty was involved. Those businesses included ESPN, which created sports television, mining, reinsurance and agri-business. When Texaco acquired Getty in 1984, I was responsible for merging the two accounting groups and systems on the West Coast. In the late 1980s, I moved into corporate accounting at Texaco's headquarters in Harrison, New York, where I stayed until the merger with Chevron in 2001.

Q How will your experience from the "preparer" side of accounting help you in your job at the FASB?

Throughout my career I always felt I was learning something new every day. At Texaco, I had the typical preparer responsibilities of quarterly and annual reporting, plus internal management reporting, tactical and strategic planning, as well as a seat on the executive council. I also met regularly with the board of directors and board audit committee. From all of those experiences I learned that accounting plays a key role in all aspects of a business. Understanding the "real-world" issues the preparer community deals with will be very helpful in my new role of setting clear and meaningful accounting standards for companies.

Q What attracted you to the FASB opportunity?

The issues we're facing right now: the loss of investor confidence due to recent corporate scandals, international convergence, implementation of the Sarbanes-Oxley Act of 2002 and the creation of the Public Company Accounting Oversight Board and how they factor into the FASB's standard setting; plus other topical areas such as accounting for stock options at publicly held companies. I think those issues make it a very exciting time to join the FASB and make positive contributions to improve financial accounting and reporting.

Q *What do you think is the biggest challenge facing preparers today?*

Besides keeping up with all the Sarbanes-Oxley–related requirements and new accounting standards adoptions, I believe the greatest challenge is making sure the financial statements clearly reflect the business, from an earnings perspective as well as on the balance sheet and the statement of cash flows. Financial statements need to be readily understood by all users, from the sophisticated analyst to the person who might want to buy a share of stock. However, there has to be a balance between the needs of users and the concerns and limitations of the preparers. This calls for standards that are timely, easily understandable and adoptable and that truly advance and improve financial reporting. We have to make sure that as we deliberate through the standard-setting process, we have a thorough understanding of the businesses that will be impacted most by those standards. It is critical that we receive input from as many constituent groups as possible and provide sufficient time for adoption in order to avoid unintended consequences.

Q *What was your opinion of the FASB before you arrived and has that view changed at all?*

My view of the FASB was that it moved relatively slowly and that it sometimes attempted to fix things that, in my view, weren't necessarily broken. I was also of the opinion that the Board was somewhat insular in that it didn't always capture the needs of the users or the concerns of the preparers. However, what I discovered when I began working at the Board is that the input we receive from all of our various constituent groups is quite extensive and that we move at a relatively fast pace. The Board's very public and open standard-setting process is impressive. I hadn't realized how much input the FASB actually seeks and receives to help us issue better standards. So it's been a very positive experience—an eye-opener—from the standpoint of soliciting information as well as encouraging healthy debates and considerations that ultimately lead to what we believe is the best resolution of an issue. We also have very talented staff.

Q *Do you think it's possible for the FASB to take the time it needs to consider all relevant input from constituent groups and still provide timely and responsive standards?*

My answer today is that we can't afford *not* to take the time needed to make sure that we receive all the input necessary to be effective and to issue standards that address real needs across a broad landscape of constituencies.

Q *What lessons have we learned from Enron and similar scandals and how can we use this knowledge to improve financial reporting?*

I believe the single greatest lesson that can be learned is the importance and total interdependence of governance at the Board level, ethical behavior at the management level and diligence and independence at the auditing level. History has shown that in all cases where those companies had problems, there was a lot lacking in those areas. I don't believe that shortcomings in the accounting standards were responsible for the scandals. It was either the violation or the manipulation of certain standards, not the standards themselves.

Q *You mentioned that the convergence of international accounting standards was one of the issues that drew you to the FASB. What is your perspective on convergence and what do you see as its biggest hurdle?*

Our world today consists of global capital markets. The best way those markets can be served is if everyone is on the same page from the standpoint of both accounting standards and auditing standards. I believe that the biggest obstacle in getting there is cultural differences between the U.S., the European Union and other countries that are going to be affected. In many ways, cultural differences cloud and color the way individual countries view certain accounting issues. While there will be some implementation differences driven by cultural differences, I think we will have a meeting of the minds on principles.

Q *Recently the U.S. Senate introduced a bill that would head off pending FASB accounting standards that would require companies to account for employee stock options as an expense. What is your reaction to this?*

Congress plays a very important role in governing the country; however, it should have absolutely no role in setting accounting standards. We currently have a well-functioning, independent, objective standard-setting process at the FASB that recently was reaffirmed as the national standard setter by the Securities and Exchange Commission. To have Congress intervene due to pressure from special interest groups would be extremely detrimental to the investing public and a huge step backward.

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George Batavick, third from left, discusses projects with Patrick Durbin, Peter Proestakes and Gerard O’Callaghan.

Q Why do you think that is?

One reason is the sheer complexity of some of the issues that we’re tackling. Also, the inability of some parties to determine, in certain cases, whether a particular standard applies to them. Some issues aren’t easily analyzed, which is why the clarity of a standard is so important.

Q So far, what do you find rewarding about working at the FASB?

When I was offered the position, I was both proud and very humbled to have the opportunity to be on the FASB and work with the people here. I am extremely impressed with the caliber of the staff, the board members and the fellows—both from the standpoint of education as well as experience. It’s an excellent and friendly group of people.

The opportunity to learn and the challenge of being part of a standard-setting process that will improve financial reporting is especially rewarding. I have always believed people must enjoy their work to do a good job, and I think people here believe this, too. We are serious about our work and that’s good, but we also have lighter moments to ease some of the pressures.

While proud to be a part of the Board, I also know we face some daunting tasks and I look forward to those challenges ahead of us.

Q Where do you stand on principles-based accounting standards?

First, all our existing standards are already principles-based because they are based on our conceptual framework. Having said that, according to the recent SEC report on this matter, we are now seeking to develop accounting standards with a very defined scope and objective and very little in the way of specific rules. A principles-based standard provides a framework for management, working with its auditors, to exercise professional judgment in determining the appropriate accounting for business activities and transactions. I believe this works because if management defines the purpose and substance of a business activity or transaction, then it should be able to determine the proper accounting and be able to discuss it with the auditors and gain their approval. I don’t think having a lot of rules is necessary. I believe the professional judgment of management and the auditors is the key.

Q What would you most like to accomplish at the FASB over the next five years?

I’d go back to what I said earlier about the importance of developing and setting standards that are easily understood and adoptable that balance the needs of the users and the concerns of the preparers. Importantly, standards must really improve financial reporting. On the international convergence front, I would like to be able to look back and see some significant progress made in that area. I would also like to be part of an education process that reaches out to users and preparers, both large and small, as well as to public accounting firms, both large and small, to help them understand the intent and the purpose of our accounting standards. That may sound simplistic, but my experience so far has been that, in certain instances, some groups don’t always understand our message.