

Committee Announces 2013-14 Slate

On June 28, 2013, the NASBA Nominating Committee met in Chicago, IL, and selected the following individuals as their nominees for the Directors-at-Large, Regional Directors and Nominating Committee, as reported by Nominating Committee Chair, Mark P. Harris (LA):

Directors-at-Large (three-year terms):

- Donald H. Burkett (Delegate – SC)
- Janice L. Gray (Delegate – OK)
- Harry O. Parsons (Delegate – NV)

Regional Directors (one-year terms):

- Pacific - Donald F. Aubrey (Delegate – WA)
- Mountain - Richard N. Reisig (Delegate – MT)
- Southwest – A. Carlos Barrera (Delegate – TX)
- Central – Douglas W. Skiles (Delegate – NE)
- Great Lakes – W. Michael Fritz (Delegate – OH)
- Southeast – Jimmy E. Burkes (Delegate – MS)
- Middle Atlantic – Tyrone E. Dickerson (Delegate – VA)
- Northeast – John F. Dailey (Delegate – NJ)

As previously announced, the Committee selected Walter C. Davenport (Associate-NC) as their Vice Chair nominee, who will accede to the office of NASBA Chair 2014-15 should he be elected by the member Boards at the Annual Business Meeting on October 29, 2013, to be held in Maui, Hawaii.

Nominations may also be made by any five member Boards if filed with NASBA Chair Gaylen R. Hansen at least 10 days before the Annual Business Meeting. A majority vote of the designated

voting representatives of the member Boards attending the Annual Meeting shall constitute an election provided a quorum is present.

Under the provisions of NASBA's Bylaws, at the 2013 Annual Meeting, Carlos E. Johnson (Associate-OK) will accede to the office of NASBA Chair and Mr. Hansen (Associate-CO) will accede to the office of Past Chair. Continuing to serve for the balance of their unexpired terms: Directors-at-Large (third year of three-year term) – Richard Isserman (Associate-NY), Kenneth R. Odom (Delegate-AL), Laurie J. Tish (Associate-WA); (second year of three-year term) – Raymond N. Johnson (Associate-OR), Telford A. Ludden (Associate-IA) and E. Kent Smoll (Associate-KS).

At the 2013 Regional Meetings, half of the Nominating Committee's members and alternate members were selected by four Regions, in accordance with Article VII, Section 3 of the Bylaws, with the other half having been selected at the 2012 Regional Meetings.

The newly elected members to the 2013-2015 Nominating Committee are:

- Southwest – Michael A. Tham (LA) member, James W. Goad (MS) alternate
- Mountain – Patrick M. Thorne (NV) member, Karen F. Turner (CO) alternate
- Northeast – Michael Weinschel (CT) member, James S. Ciarcia (CT) alternate
- Great Lakes - Claireen Herting (IL) member, Margaret A. Houston (OH) alternate. ♦

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*Published by the
National Association of State Boards of Accountancy
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2013 Regional Meetings



NASBA hosted two well-attended Regional Meetings in Chicago and New Orleans. Forty-eight State Boards of Accountancy were represented at the June 5-7 and June 26-28 meetings.

Non-Authoritative Frameworks Discussed

NASBA leaders are following through on the resolution unanimously approved at the April 19 Board of Directors' meeting in response to the American Institute of Certified Public Accountants' creation of their Financial Reporting Framework (FRF) for Small- and Medium-Sized Entities (see *sbr* 5/13). On July 10 the AICPA released the final version of its FRF and NASBA quickly sent out a press release outlining its concerns with the FRF, including its lack of an appropriate public exposure process. NASBA had requested the AICPA allow the Private Company Council time to propose appropriate modifications to the Generally Accepted Accounting Principles (GAAP) before the Institute rolled out its new standards.

NASBA Chair Gaylen Hansen (CO) wrote: "At a time when accountability and transparency of those in authority is scrutinized, it is troubling that a non-authoritative proposal to significantly weaken the financial reporting of private companies and public protection is even being suggested."

At the June Regional Meetings, June 5-7 in New Orleans and June 26-28 in Chicago, State Board members were asked to consider how State Boards should treat non-authoritative standards. Who can set financial reporting standards in the United States? Can any group? What should the State Boards' role be in the acceptance of such standards? At both the Eastern and Western Regional Meetings, Board representatives were given opportunities to discuss what NASBA's concerns are about the AICPA's proposal. Among the issues are:

1. As non-authoritative guidance, FRF will be very difficult to regulate or enforce.



Ken Bishop and Gaylen Hansen speak at the Western Regional Meeting.

2. The FRF's scope of "small- and medium-sized entities" is undefined; consequently, a private company of any size or financial backing could potentially use FRF.
 3. While FRF uses GAAP financial statement titles, it does not require disclosure of differences with GAAP, which could confuse the statements' users and invites fraud and abuse.
- NASBA President Ken Bishop told attendees at the Meetings that NASBA will work through the Uniform Accountancy Act Committee to consider Model Rule language which would require that, before a non-authoritative accounting standard can be used by a CPA in a state, it must first be approved by the State Board.

On June 17 the Institute of Management Accountants also issued a press release stating their disagreement with the FRF. They agreed with the concerns raised by NASBA and also stated: "IFRS-based frameworks (such as IFRS for SMEs) should only be considered in a coordinated, holistic manner driven by the national standard setter and regulator (FASB/SEC)." (Continued on page 6)

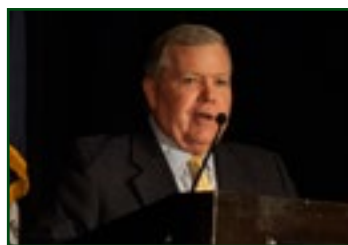
Boards Urged to Study Codification

Find someone on your State Board to review the AICPA's Code of Conduct's codification and then have him or her come back to discuss it with the entire Board as to its implications for your state, advised NASBA Director-at-Large and Ethics Committee Chair Raymond N. Johnson (OR), at the Eastern Regional Meeting. Each State Board should take the opportunity to review their code of conduct and see how it matches up against the AICPA's, he said. For example, some states' rules are more stringent on record retention than the AICPA's, he noted. The comment period for the AICPA's 300-page exposure draft ends August 15. Dr. Johnson said the NASBA Ethics Committee is preparing a comment letter.

The codification incorporates two new conceptual frameworks, one for those in public practice and one for those in business, explained New Jersey State Board of Accountancy President John F. Daily, Jr., a member of the AICPA's Professional Ethics Committee (PEEC), at the Western Regional Meeting. The framework is applied only when there is no specific guidance on a particular relationship or circumstance in the Code. Then the CPA has to identify threats



Ethics Chair Raymond N. Johnson



PEEC Member John F. Daily, Jr.

and apply the necessary safeguards to reduce the threat to an acceptable level. A CPA would be considered to be in violation of the applicable rule of conduct if he or she could not demonstrate that safeguards were applied that eliminated or reduced the significant threats to an acceptable level of risk.

Among the recent changes in the Code pointed out by both Mr. Dailey and Dr. Johnson were: the deletion of the "holding out" provision. CPAs are to be held to the Code of Conduct whether or not they hold themselves out to the public as a CPA. In the area of responding to client requests for records, the AICPA Code points out that some State Boards' rules may be more restrictive, calling for records to be returned to the client whether or not fees are paid, as does the Uniform Accountancy Act. CPAs who are not partners

but act in a partner capacity with respect to attest engagements are subject to the same independence rules as are partners, effective with engagement beginning on or after December 15, 2014.

It is anticipated the revised Code will be adopted in the first quarter of 2014 and effective by the end of 2014. ♦

President's Memo

Let's All Take a Breath

I hope all of you had a wonderful Independence Day and weekend. I spent much of my holiday weekend in communications with senior staff and volunteer leadership of NASBA, AICPA and other accountancy-related organizations discussing an important issue.

For those who attended the NASBA Regional Meetings in New Orleans and Chicago, you know that a primary focus was on the AICPA's recently released Financial Reporting Framework for Small and Medium-Size Entities (FRF-SME) and differences of opinion and levels of acceptance by AICPA, NASBA, and other entities. Before you start rolling your eyes, let me assure you that this *Memo* is not intended to be persuasive toward any aspect of that issue. In fact, I believe it is time that we all take a breath.

In past articles and talks, you have seen me articulate my belief that passionate and robust discussions over disagreements are a healthy exercise in getting to good outcomes. To outside observers, the rhetoric, divisiveness and volume of the discussion may appear to be adversarial or mean spirited. That inference is not accurate, but it prescribes that we step back a bit, look at our overall activities, consider our mission and "take a breath."

NASBA and AICPA each have unique and disparate priorities and missions. NASBA's focus is on protecting the public interest through its advocacy and support of State Boards of Accountancy. AICPA has a responsibility to promote the CPA credential and profession. However, each organization benefits from the focus of the other. It has always been my position that a strong and viable CPA profession is a key element of public protection and I know that AICPA supports protecting the public interest and a strong state-based regulatory system that insures the integrity of the profession. Public is the CPA's middle name and there is no profession if that is ignored.

Let's step back and look at all the projects that NASBA, the State Boards and the AICPA are working on successfully together. We've got a quality Uniform CPA Examination that we are now offering internationally, developed by a joint Board of Examiners. Six mutual recognition agreements with professional bodies in other countries have been developed by the NASBA/AICPA International Qualifications Appraisal Board. You will shortly be receiving an exposure draft on the redefinition of "attest," proposed to be included in the Uniform Accountancy Act, which is jointly created by NASBA and the AICPA. With NASBA's encouragement, many State Boards have created Peer Review Oversight Committees of compliance assurance programs administered by the AICPA. We have jointly created standards for Continuing Professional Education program sponsors. These are just some of the activities we are pursuing that betoken a good working relationship with the profession. Are the State Boards controlled by the professional association? They are not. However, NASBA and the Boards do recognize the expertise, resources and legislative support the profession contributes to effective regulation.

As I stated last month, AICPA and NASBA started the private company financial reporting journey together by agreeing that new standards were needed for small and medium-sized private entities. We have never deviated from that important agreement, and it still stands. It is natural that we might initially disagree on how we get to where we need to be. That's frequently what is needed to arrive at a good solution. As stated above, our missions and focus are different, but not without nexus.

Recently the newly developed Private Company Council (PCC) released three proposals that were accepted by the Financial Accounting Standards Board (FASB) and released for public exposure. The proposals include the modification of the requirements for private companies to: separately recognize fewer intangible assets acquired in a business combination; permit amortization of goodwill; and have the option to use simpler approaches to accounting for some types of interest rate swaps. Both AICPA and NASBA have publicly congratulated the PCC and FASB for their work. The speed with which the PCC and FASB released these proposals was a positive sign of their providing credible relief for private companies.

On occasion, I hear from stakeholders who are concerned about the disagreements NASBA may have with the AICPA. I acknowledge and appreciate that concern. While I would again argue that the disagreements may be natural and healthy, the comments clearly imply the expectation that we address these issues respectfully. I wholeheartedly concur with that premise. It might surprise some of you to know of the great working relationship that I, our staff and our volunteer leadership have with our counterparts at the AICPA. When we are not exchanging ideas related to regulation, you might find us trading tips on selecting wine, good vacation spots or college teams. You have often heard me talk about the importance of State Boards and State Societies having an open and trusting relationship. The same applies to NASBA and AICPA.

I believe that the conversations, debates and even arguments about the changes that are occurring in the accounting world are important to getting to a good end. We should never forget the myriad of mutual challenges that we have faced together. It is too early to forecast the outcome of the FRF-SME debate, but we can turn down the volume a bit. In other words, "Let's all take a breath!"

Semper ad meliora (Always toward better things).



Ken L. Bishop

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is fluid and cursive.

— Ken L. Bishop, President and CEO

PCC Roundtables Ahead

Participants at NASBA's June 2013 Regional Meetings heard Private Company Council Chairman Billy Atkinson in New Orleans, on June 5, and PCC Member Diane M. Rubin in Chicago, on June 25, announce roundtable discussions will be held across the nation to gather input on financial reporting standards the PCC should consider modifying to suit private companies' needs. The first of these roundtables is scheduled for November 4, 2013 at Ohio State University in Columbus, with three others to be held at college campuses in different parts of the country. "All our standard setting is being done in a public setting, with an emphasis on the diligence of the process," PCC Chairman Atkinson said. "Our mission is to change the culture of standard setters to think of the implications for private companies whenever a decision is made."

On June 10 the Financial Accounting Standards Board endorsed the first three alternatives within Generally Accepted Accounting Principles proposed by the PCC: (1) derived from PCC Issue No. 13-01 Accounting for Identifiable Intangible Assets in a Business Combination, (2) derived from PCC Issue No. 13-01B Accounting for Goodwill Subsequent to a Business Combination, and (3) derived from PCC Issue No. 13-03 Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps. Exposure drafts for public comment were released on July 1 and stakeholders are being asked to let the FASB know by August 23 if they believe these changes will improve financial reporting for private companies. While the exposure period for the proposed changes is in progress,



Billy Atkinson, PCC Chairman



Diane Rubin, PCC Member

the FASB has requested staff to conduct additional research to assess the applicability of the proposals derived from PC Issue Nos. 13-01 and 13-01B to assess the applicability of these proposals to public companies and not-for-profit organizations.

"My concern is getting good input," PCC Chairman Atkinson told the NASBA Western Regional Meeting. "There is a lot of angst out there that we will be dealing with, so send us a short e-mail with your issues," he told the Boards. Ms. Rubin remarked that the PCC had held its first meeting on December 6, 2012 and had "hit the ground running." Subsequent meetings were held in February and May, with their fourth meeting coming in July. The PCC is looking at prior pronouncements, current FASB projects and the Emerging Issues Task Force's projects. Ms.

Rubin reported that all the members of the FASB are attending every PCC meeting.

FAF President and CEO Terri Polley wrote in her monthly memo that she believes the FASB and PCC are making "important strides" in addressing alternatives that will enable private companies to comply with GAAP. She also stated: "Contrary to what you may have heard, neither the FAF nor the FASB to date has taken a position on the substance of the AICPA's special purpose framework. However, we have expressed our concern about the possibility that some may confuse the framework with GAAP.... Because of this concern, we will continue to monitor developments in this area..." ♦

ARSC Compilation ED to Come

Comments from State Board representatives were welcomed by Michael L. Brand, Chair of the AICPA's Accounting and Review Services Committee, and Chas J. McElroy, Chair of ARSC's Task Force, at breakout sessions moderated by NASBA's Compliance Assurance Committee Chair Janice L. Gray (OK) at the Eastern and Western Regional Meetings.

"The compilation standard is not ready to be released in 2013: It will change," Mr. Brand told the NASBA audience. He stated, "PEEC [AICPA's Professional Ethics Executive Committee] has clarified the preparation of financial statements is a non-attest service," when it amended 101-3. ARSC then had to create a non-attest compilation/preparation standard that puts requirements around what a CPA needs to do when preparing financial statements. Mr. Brand asked those in the audience to indicate if they felt that independence is important for the preparation of financial statements. About half of the audience did so.

"We are not trying to converge with international standards: They are way behind us on compilations and reviews," Mr. McElroy told the NASBA audience. However, ARSC is determined to converge review standards with AU-C section 930, Interim Financial Information. "We are taking the position that



Michael Brand, ARSC Chair

independence is not required for compilations. We are saying that the accountant has the option of disclosing independence -- or lack thereof," Mr. McElroy said and added that the ARSC is very interested in getting the Boards' feedback on giving the accountant the option of disclosing independence.

"My question is where attest really begins," NASBA Past Chair Billy Atkinson (TX) said. "I say it begins when you associate the licensed CPA with the service. You are beginning to bifurcate the independence standards, and I have a concern about that." Mr. McElroy responded: "On bifurcating the independence standards, our preference would be to not have anything in there... ARSC looked at the survey that the public wants to know if we had a financial interest, so we put that in the draft. If that is confusing, we would want to hear from NASBA about that." ♦

A Glimpse of the 2013 Regional Meetings



Meeting attendees consider proposed changes at a breakout session.



Regional Directors Karen Turner, Janice Gray and Douglas Skiles prepare for their summary of the Regional breakout sessions.



AICPA Vice President Sue Coffey and PCC Chair Billy Atkinson chat.



Regional Directors Bucky Glover and Kim Tredinnick at the Eastern Regional Meeting report on their regions.



Regional Directors Jimmy Burkes and Jeff Chickering prepare.



Graham Morris speaks on behalf of the CPT Student Leadership Conference during the Welcome Reception at the Eastern Regional Meeting in Chicago.



Andy DuBoff and Jack Dailey share comments at the Western Regional.

Researchers Report at Regionals

NASBA's accounting research grant program is now in its third year and attendees at the Regional Meetings learned about some of the results of three studies that the program has helped to support. Dr. John Hasseldine, of the University of New Hampshire, called on tax practitioners at the Regional Meetings to help with his team's research to investigate how decisions are made when a tax case includes facts and regulations that are ambiguous. Dr. Hasseldine has been working with Dr. Darius Fatemi of Northern Kentucky University and Dr. Peggy Hite of Indiana University on a study looking at the Code of Professional Conduct and what may perhaps be countervailing standards. To date their research has found students find conflict between two professional standards and the students have proved to be relatively conservative in reporting situations. The research team is now looking to dovetail responses received from research participants who are practitioners with those received from students. Dr. Hasseldine's team believes ethical guidelines will become increasingly important as the profession adopts more principles-based standards.

Dr. Mark Myring told the Regional Meetings about the work he is doing with his Ball State University colleagues, Dr. Jennifer P. Bott and Dr. Richard Edwards. Their aim is to improve on-line education. The team is using learning analytics to create a personalized learning environment for students. This is being accomplished by having students take a pre-test based on knowledge that they should have already mastered, then assessing the pre-test results, identifying what additional activities are required to mitigate the weaknesses that the pre-test identifies, and then assigning new course material to fit the needs of the class. Ball State has developed two modules, one on depreciation and the other on long-term debt, that were both used in classes given during the spring 2013 semester and received positive student feedback. Dr. Myring said that further analysis will be conducted



Dr. John Hasseldine and Dr. Mark Myring summarize their work.

to determine the effect of the modules on student performance.

The third research project was described to the NASBA audience via a video prepared by Dr. Belverd E. Needles of DePaul University. He is working with Dr. Gert H. Karreman, also at DePaul, on a global accountancy education recognition study. Their report makes available a benchmarking methodology for the recognition of accountant and auditor qualifications between countries. Among the findings of the study's analysis of 21 qualifications of accountants and auditors in 16 countries was: "Government agencies do not play a role as providers of accountancy education. However, governments and government agencies play an important and increasing role when responsibility for qualification requirements is considered. In most countries there is a shared responsibility between the government or government agencies, and the profession. This can be official and based on regulation, but also a result of practical cooperation." Of the 21 qualifications studied by Drs. Needles and Karreman, none had qualifications for which the universities had sole responsibility. ♦

Non-Authoritative Frameworks Discussed (Continued from page 2)



Chair Gaylen Hansen encourages attendees at the 2013 Western Regional Meeting to participate in reviewing standards. He said each State Board needs to assess whether their public is at risk.

The AICPA's FRF is based upon the Canadian IFRS for SMEs as adapted by an AICPA Task Force led by Dr. Thomas A. Ratcliffe.

On July 1, the President and CEO of the Financial Accounting Foundation, Terri Polley, released a letter discussing the FRF-SME. She stated, "For private companies already using GAAP, moving to the AICPA framework would be a major leap. Companies – and users of their financial statements – may not realize just how significant that leap may be, particularly as NASBA noted, because the framework borrows GAAP concepts, but there is no requirement to disclose the substantial differences between GAAP and the framework."

President Bishop reports NASBA and AICPA continue to discuss their common interests in having appropriate standards for small- and medium-sized private companies. ♦

Check nasba.org for UAA exposure draft on definition of "attest." Comments due October 15.

Change in “Attest” Definition Proposed

The definition of “attest” is what only a licensed CPA practicing in a licensed CPA firm can do, explained AICPA Vice President Sue Coffey, at the NASBA Regional Meetings. “The definition of attest is used in multiple places in the Uniform Accountancy Act, so it is critical to get this definition right,” she said. Joining her to explain why a change in the “attest” definition is being proposed at this time, NASBA UAA Committee Chair Ken Odom (AL), pointed out that non-CPAs are performing services that should be considered attest services and are using reporting formats that have been developed by the AICPA. “Our role is to protect the public,” Mr. Odom said. “When the public receives a report that looks exactly like a CPA’s, it is confusing to them. There is an element of trust that comes with using a CPA. The public thinks they are getting something they are not.”

While just five years ago, assurance and attestation services were generally limited to audits and reviews of historical financial statements, the needs of clients are changing, Ms. Coffey observed. “In recent years, CPAs have increasingly been asked to provide assurance reports on representations other than historical financial statements. And, more importantly, non-CPAs have been asked too – and have been using the AICPA’s standards of practice!” Among the many examples of such attestation engagements that she listed, where a CPA would apply Statements on Standards for Attestation Engagements (SSAE), were: examining or reviewing sustainability reports, examining or reviewing XBRL data, examining the effectiveness of internal control over financial reporting, and examining or reviewing Greenhouse Gas Emission statements.

An exposure draft of language proposed by the joint NASBA/AICPA UAA Committee will be coming out in July with a comment



AICPA Vice President Sue Coffey



NASBA UAA Chair Ken Odom

deadline in October. Both the NASBA Board of Directors and the AICPA Board of Directors held special conference calls to approve the language for exposure. The joint UAA Committee is also considering how firm mobility could be provided for in the UAA in a manner that would bring more uniformity among those states that already do not require CPA firms from outside their state to register if they do not have an office in their state, and that would be workable for other states as well. While the AICPA and NASBA leadership have agreed that it is important for all states to embrace a uniform definition of “attest,” they have recognized that some states may not be ready to consider adopting firm mobility at this time.

“Firm mobility is already in operation in some states, including Alabama, my state,” Mr. Odom said. “We don’t want to ask State Boards to keep going back to the legislature to make changes in their statute, so it is extremely important that whatever language is proposed for the attest definition dovetails with the firm mobility language. During the exposure period we hope to be getting comments back that will enable us to craft something for the final language. Our goal is to have the attest model language ready for introduction for the 2014 legislative sessions. Firm mobility may take longer.”

Besides the definition of attest and provisions for firm mobility, the UAA Committee still has several other topics under discussion, Mr. Odom reported. These include: (1) the scope of services that can be offered by an “inactive CPA”; (2) under what circumstances client records must be returned; and (3) when a CPA can whistleblow and not be in violation of professional standards. ♦



NASBA
106TH ANNUAL MEETING
MAUI, HAWAII
OCTOBER 27-30, 2013

KEYNOTE SPEAKER:
FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)
CHAIRMAN RUSSELL G. GOLDEN

Allen Alerts Boards on Dental Case's Ruling

NASBA Legal Counsel Noel L. Allen called to the attention of the State Boards' representatives the unanimous decision of the U.S. Court of Appeals for the Fourth Circuit, issued on May 31, upholding the Federal Trade Commission's ruling that the North Carolina State Board of Dental Examiners had engaged in anticompetitive conduct that prevented non-dentists from providing teeth whitening services to NC consumers. At the NASBA Regional Meetings, Mr. Allen said the Dental Board is likely to request a rehearing and the case may ultimately go to the U.S. Supreme Court. It has particular significance for accountancy boards because the Court of Appeals had rejected the Dental Board's claim that, as an agency of the state, its action was protected from federal antitrust scrutiny by the state action doctrine.

Writing the majority's opinion, Circuit Court Judge Dennis W. Shedd stated: "...we agree with the FTC that state agencies 'in which a decisive coalition (usually a majority) is made up of participants in the regulated market,' who are chosen by and accountable to their fellow market participants, are private actors...."

Circuit Court Judge Barbara Milano Keenan wrote in her concurring opinion that the Board had received reports of non-



Noel L. Allen, NASBA Legal Counsel

licensed persons performing teeth whitening without using the proper equipment or practices, and therefore: "Accordingly, in my view, the record supports the Board's argument that there is a safety risk inherent in allowing certain individuals who are not licensed dentists, particularly mall-kiosk employees, to perform teeth-whitening services." Despite this, Judge Keenan wrote: "Here, the fact that the Board is comprised of private dentists elected by other private dentists, along with North Carolina's lack of active supervision of the Board's activities, leaves us with little confidence that the state itself, rather than a private consortium of dentists, chose to regulate dental health in this manner at the expense of robust competition for teeth whitening services. Accordingly, the Board's actions are those of a private actor and not immune from the antitrust laws under the state action doctrine."

Mr. Allen, who had argued the case on behalf of the NC Dental Board, noted that although Judge Keenan had recognized the public protection being provided by the Dental Board in restricting teeth whitening to licensees, that was outweighed by the fact that the majority of the Dental Board's members were practicing licensees and, consequently, potential competitors of the teeth whitening kiosk operators. ♦

State Board Report

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