

Panel Begins Standards Study

The need for private company accounting standards has been an issue for many years, Financial Accounting Foundation (FAF) President Teresa Polley observed as the AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies (BRP) kicked off their discussions on April 12 in New York City. “A confluence of events,” including the financial crisis, regulatory changes and a more activist FAF Board of Trustees, were cited by Ms. Polley as the reason for the new jointly-sponsored group’s work. Rick Anderson, BRP Chairman, said that what will make this panel different from the numerous previous panels who addressed this issue is “the most influential bodies are at the table together trying to come to a solution.”

NASBA Chair Billy Atkinson, a BRP member, quickly summarized for the Panel the role of the State Boards of Accountancy, by way of explaining why they are interested in standard setting and what this new group may ultimately recommend. He emphasized that the Boards regulate over 650,000 CPAs.

Judy O’Dell, chair of the FASB’s Private Company Financial Reporting Committee

(continued on page 2)

President Costello Announces Retirement



David Costello

NASBA President David A. Costello, CPA, has announced he plans to retire as of January 1, 2012. He told the NASBA Board of Directors at their meeting on April 23 that he actually plans to “re-fire” rather than “retire.” In addition to serving as President and CEO of NASBA since 1994, Mr. Costello is also the President and CEO of NASBA’s Center for the Public Trust – which he formulated in 2004 to address the issue of ethics and ethical behavior in business, education, public policy and society.

At the time of his retirement, Mr. Costello will be NASBA’s longest serving executive director, having been with the Association for more than 17 years.

Over the years, Mr. Costello has represented the voice of State Boards of Accountancy by addressing legislators, professional groups, academia and the general public on issues such as accounting standards, mobility, peer review reporting, licensure best practices and public protection, all of which have a global impact on the accounting profession. Under his leadership, NASBA relocated its headquarters to Nashville, TN, from New York City, and grew its employee base from 40 employees to over 250 employees.

As a means to effectively transition from Mr. Costello’s leadership, the NASBA Board of Directors approved a formal process utilizing a Selection Advisory Committee (SAC) to determine his successor. The Board of Directors, through its Executive Committee, has appointed the following individuals to serve on the SAC, including representatives from each of the NASBA Regions: John Peace (AR) – Chair, Jimmy Burkes (MS), Charles Clark (ID), Andrew DuBoff (NJ), Ellis Dunkum (VA), Theodore Long (OH), Diane Rubin (CA), Kent Smoll (KS), Laurie Tish (WA), and William Treacy (TX).

At the June 2010 Regional Meetings, the SAC will discuss their formal selection process and obtain feedback from State Board representatives. Following those meetings, a formal candidate search will be launched. The SAC and Executive Committee will recommend Mr. Costello’s successor for approval by the NASBA Board of Directors. The overall time needed for the search and selection process is expected to be 9-12 months, with the goal of having a replacement identified and on the job in sufficient time for a smooth transition. ♦

Contents

Panel Begins Standards Study.....	1
President Costello Announces Retirement.....	1
Colorado Adopts 150-Hour Requirement.....	1
Board Approves ERB Restructuring.....	2
President’s Memo.....	3
HI Requires Peer Review of HI Attest Work.....	4
International Sites Anticipated in 2011.....	4
Denise Hanley to Head PCS.....	4

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Colorado Adopts 150-Hour Requirement

Colorado Governor Bill Ritter, Jr., signed into law HB10-1236 on April 21, which sets at least 150 hours of college education including a baccalaureate as a requirement for becoming a CPA. The new law also: rescinds education in lieu of experience, in connection with the 150 hour requirement; conforms experience requirements to those of the Uniform Accountancy Act; mandates peer review; and increases the Colorado Board’s fining authority. This will bring the state’s education requirements into line with those in the Uniform Accountancy Act. ♦

Board Approves ERB Restructuring

The CPA Examination Review Board (ERB) will be restructured effective August 1, 2010, under a plan ratified by the NASBA Board at its April 23 meeting. Since 1975, the ERB has reported directly to the Boards of Accountancy to provide annual assurance that the CPA Examination can be relied upon to meet the State Boards' statutory requirements. According to the plan accepted by the Board of Directors, the new ERB will be composed of five volunteer members who will approve the scope of the reviews, review programs and oversee the activities of all the Uniform CPA Examination's auditors, consultants and reviewers. The review procedures and documentation will be performed by a full-time staff, of two or three, dedicated to the ERB and they will report to the ERB's chair.

Before the restructuring plan was activated, NASBA Chair Billy Atkinson met with the ERB on April 29-30 to discuss the plan's details and to gather the ERB members' input on transitional

considerations. The new ERB members will be appointed for alternating three-year terms and will be rotated by the ERB Chair to various areas of emphasis during those three years. NASBA Past Chair Wesley P. Johnson has been selected to chair the new ERB. Beginning this year, the ERB's operating year will change from a June 30 end date fiscal year to a year ending July 31, which coincides with the AICPA's and NASBA's fiscal years.

A discussion of the new ERB will be led by NASBA Chair Atkinson at the Regional Meetings. He explained, "Since the advent of the computer-based tests, it has become increasingly obvious that an ERB structure developed for a paper-and-pencil exam format does not offer the most effective means for accomplishing the principal objectives as set forth in the Bylaws and repeated in the CBT Agreement."

The ERB's role is set out in the March 4, 2010 Amended and Restated CBT Services Agreement. ♦

Panel Begins Standards Discussion (continued from page 1)

(PCFRC), told the BRP that on November 2, 2009 the PCFRC wrote to the Financial Accounting Foundation asking them to take a leading role in ensuring the establishment of private company standards. She said the PCFRC is calling for "rethinking, not bashing, the current process." Ms. O'Dell said the PCFRC has been following what other countries are doing: Canada has set its own private company standards; Japan is involved in a similar research project; and some have adopted International Financial Reporting Standards (IFRS) for Small and Medium Entities or rejected them. A representative from Canada is scheduled to address the May 14 meeting of BRP to update them on how their new standards are being implemented.

Representatives from federal regulatory groups, banks, insurance companies and other lenders and federal regulators attended the April meeting. Several of the bankers stressed the need for consistent standards, noting the "gold standard" of GAAP, but they were not opposed to changing to international standards. Kewsong Lee, managing director of Warburg Pincus, said the global private equity firm uses financial statements as part of their due diligence in assessing the historical performance of companies. "At the end of the day, we are looking for truth: We don't really differentiate between private and public companies," he said. Asked to explain, he continued, "There is no one metric we tap in on. The truth for a small company may be how well the R&D is going, which may not show up in the financial statements."

Paul Beswick, Deputy Chief Accountant in the office of the SEC's Chief Accountant, cautioned that the BRP should not try to forecast what the SEC is going to do about adoption of IFRS. He advised the panel to "focus on private companies." He noted that Canada has decided to maintain its national standard setter for private companies.

No new research was called for at the first meeting of the BRP.

Five years ago the AICPA issued its Private Company Financial Reporting Task Force's Report, which included the findings from a random survey of over 1,000 people and of an outreach survey of over 2,700 people. James G. Castellano, who chaired that Task Force, reviewed its findings with the BRP. While the study found all groups of constituents rated certain attributes of GAAP as being high value, some GAAP concepts were found to have low relevance and decision usefulness for private companies, Mr. Castellano said. The Task Force had concluded GAAP standard setting needs to be different for private companies. In response, the FASB created the committee headed by Ms. O'Dell.

Professor Teri Yohn told the BRP that the American Accounting Association had commented that the AICPA Task Force's survey over-represented practitioners, not including enough representation of users. Mr. Atkinson asked if a new survey five years later would be helpful and Mr. Castellano replied that the topic had been researched for decades, but it was up to the BRP to determine if more is needed. Chair Anderson did not think the BRP needed to call for another survey at this point.

An argument often posed for a single set of standards is that private companies can more easily transition into being public companies with a single set of standards, but Mr. Anderson said most companies that decide to go public discover they need to make restatements to get into compliance with the SEC's requirements for public companies. Mr. Beswick said he would put together information on the number of restatements companies had to make in their initial public offering process, as well as other financial reporting challenges they encountered. The SEC will also prepare information on companies that are not necessarily SEC registrants, but who need to prepare GAAP financial statements, such as those private companies that are equity method investees in a public company. ♦

The Nashville Flood

Rather than bursting with the joys of spring, this year May commenced with sadness across our country: In New York a would-be bomber was being chased, in Louisiana oil was spilling out off shore, and in Tennessee the Cumberland River was cresting to 51.5 feet. Fortunately NASBA's offices were not damaged and our 250+ employees were not physically hurt, but adversity in the form of record flood levels has caused unimaginable harm and travesty to Nashville and surrounding communities and to our NASBA family. As I talked to many of them, I was reminded of the severity of the flood's impact on them and their families, friends and neighbors (see <http://www.youtube.com/watch?v=pFjaQoOdJvI>). But more than being impressed by the adverse circumstances, I was just simply blown away with the response of our NASBA family to this once-in-a-lifetime disaster. Many of them have been impacted -- and most of them have rolled up their sleeves and gone to work to do what they could for their families and for other families. The stories they told me not only touched me but inspired me to more fully realize the strength of the human spirit and the fellowship of the NASBA family.

I thank all them for being first attentive to their families and for being concerned about our business at NASBA. A special thanks go to Infrastructure and Security Team Director Dean Carroll and his capable staff, to Chief Technology Officer Ed Barnicott who while on vacation continued in touch with the technology response, and to all of our other support personnel. I can tell you that our backup disaster plans went into effect and performed brilliantly: exam candidates have been hardly impacted; exams continue; business is getting done effectively; and State Boards, while sensitive to what could have been, have not experienced significant difficulty.

I also want to express my deepest appreciation for the many phone calls and expressions of concern from so many of you, our clients, our vendors, and the profession. I am reminded in poignant fashion that what we're about is so much more inclusive and pervasive than simply our business, our mission and our objectives. It is important to make a living -- but it is so much more important to live our making. And what I've seen demonstrated in the aftermath of the greatest disaster ever to affect the greater middle Tennessee area are people who are not only taking care of business but taking care of living and doing what is needed under very difficult circumstances.

None of us can control natural disasters. We can only respond. And our staff's response has not only been positive but contagious and with a servant emphasis. We encourage our staff members to continue to take care of their families, assist their friends and lend a hand to others in need. And I want to thank everyone for the hundreds of prayers on behalf of so many hurting people. I will continue as well with prayer for our staff, their families and for our communities.

Ad astra

Per aspera

"To the stars through difficulty."



David A. Costello, CPA

A handwritten signature in black ink that reads "David A. Costello". The signature is written in a cursive, flowing style.

— David A. Costello, CPA

President and CEO

HI Requires Peer Review of HI Attest Work

Overriding the veto of Governor Linda Lingle, the Hawaii legislature on April 30 passed a mandatory peer review law which requires “a peer review every three years on the firm’s Hawaii attest work” for “every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms.” Although the law makes clear that should the review disclose information that a firm “has not met the appropriate professional standards, the board may require further investigation of the firm,” it states that the peer review process “shall be for educational or remedial and not punitive purposes.”

The new law also states that the Accountancy Board may authorize a third party entity to administer the mandatory peer review “provided that the entity shall not require firms or the firms’ owners or employees to become members of the entity to participate in peer review and shall charge the same rate for peer review services to both members and nonmembers.” ♦

Denise Hanley to Head PCS



Denise Hanley

Denise Hanley has been selected by the Board of Directors of Professional Credentials Services, Inc., (PCS) to be the new president of the wholly-owned NASBA subsidiary. She takes up the post as Senior Vice President Ken Bishop has moved into the NASBA Chief Operating Officer slot vacated by Executive Vice President Joseph Cote (see *sbr* 4/10), who will retire at the end of the year.

Ms. Hanley has been with NASBA since 1997, having most recently served as Vice President of PCS and president of its Management Administrative Services, launched late last year. She previously guided NASBA in its information technology efforts, including playing a pivotal role in the conversion of the Uniform CPA Examination to computer-based testing. ♦

International Sites Anticipated in 2011

NASBA now expects that the launch of the international administration of the Uniform CPA Examination will occur no earlier than mid-2011, NASBA Senior Vice President and COO Ken Bishop told the Board of Directors at their April meeting. NASBA, AICPA and Prometric representatives continue to work through an agreement that would allow CPA candidates to take the examination outside of the 55 U.S. jurisdictions. He explained that a risk analysis is being performed to determine where gaps in insurance coverage might exist and to ensure each party will be adequately covered for their part. Mr. Bishop said the costing strategies are being reviewed to see if they coordinate with the risk analysis and the role for each partner.

NASBA representatives have been meeting with the State Boards that license the largest number of international candidates to get those Boards’ input on this project. The Guam Board has expressed concerns that international administration could reduce the number of candidates testing in Guam, Mr. Bishop stated. Another Board has raised the issue of meeting the staffing needs of an increased number of international candidates. NASBA has said it will assist Boards should such staffing issues arise.

Mr. Bishop pointed out at that the CBT –e (Computer-Based Testing–evolution) will be launched by the AICPA on January 11, 2011, which will involve many of the same AICPA staff members who will be engaged in the international test site project. ♦

State Board Report

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