

## PCAOB and Chinese Sign MOU



James Doty

The Public Company Accounting Oversight Board, the China Securities Regulatory Commission and the Chinese Ministry of Finance have entered into a memorandum of understanding that establishes a framework for the production

and exchange of audit documents relevant to investigations in both the U.S. and China. It sets out a mechanism for requesting and receiving documents in furtherance of their investigations.

PCAOB Chairman James R. Doty commented: “We look forward to continued progress with our Chinese counterparts to reach an agreement on cross-border inspections of PCAOB-registered firms as well.” The PCAOB is engaged in continuing discussions to permit joint inspections in China of audit firms that are registered with the PCAOB.

The MOU states: “The Authorities will, within the framework of this MOU, provide each

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## Hansen Names Standards Study Group

A task force to study the standard-setting structure and process for financial reporting, auditing and ethics for private entities and to provide guidance on how Boards of Accountancy can be engaged has been appointed by NASBA Chair Gaylen Hansen (CO) with the unanimous approval of the NASBA Board of Directors. Mr. Hansen will lead the new Standards Study Group, that will include: Donny Burkett (SC), Walter Davenport (NC), Raymond Johnson (OR), Harry Parsons (NV) and Laurie Tish (WA).



Gaylen Hansen

“The Standards Study Group (SSG) will delve into what the State Boards’ strategy and position ought to be going forward with respect to standard-setting for private entities,” Mr. Hansen stated. He anticipates the SSG “will address various Board of Accountancy options as to the breadth and depth of their involvement in establishing standards, including: What should the Boards’ voice or role be in standard setting? How should that monitoring and oversight be exercised? What vetting, periodic evaluation and ongoing acceptance of third-party, private sector standard-setters should occur? How can the independence and governance of the standard-setter be more responsive to the needs of the public?” He explained: “Recent events beg for a better structure than what we have now. The SSG will look for ideas to improve that structure so that standards are authoritative and enforceable by those called upon to enforce them. To that end, we will start with NASBA’s current strategic plan, to fold this initiative into it so that there is appropriate alignment. We will look for catalysts for constructive change that is in the public interest.” ♦

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Editor: Ken L. Bishop  
Production Editor: Anthony E. Cox  
Editorial Assistant: Ann Bell

Tel/615.880.4200 Fax/615.880.4290  
www.nasba.org

## NASBA Comments on PCC Framework

The Private Company Council’s proposed “Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies” drew support from NASBA Chair Gaylen Hansen and President Ken Bishop in a letter sent to the Financial Accounting Standards Board on May 31, 2013. The letter praised “the open process of the PCC to expose the proposed Guide for public comment, rather than limit consideration to internal discussion. We understand the PCC will likely engage the public in further roundtable (and possibly ‘town hall’) meetings for the purpose of obtaining additional feedback from stakeholders prior to the Guide being finalized. We encourage and offer our support to undertake such endeavors....”

The letter underscored the issue of how much access investors have to management when determining what financial information is required: “When there are larger numbers of investors in a private company, their informational needs are likely to be more similar to those of public company investors. We believe the Guide should take a balanced approach to consider the level of available access to additional information.”

While being in favor of the broad direction the Guide can provide for the

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## IRS Returns Preparer Test Fees

The Internal Revenue Service has started to return the fees it collected for its registered tax return preparer test. In accord with the U.S. District Court's January 18, 2013 ruling that enjoined the IRS from enforcing its regulatory requirement for registered tax return preparers (see *sbr* 2/13), fees collected from preparers who tested on or after January 18, 2013 are being refunded as well as fees from those who had scheduled to test. E-mail notification has been sent to those who will be receiving refunds and no additional action is required from them to receive their refunds. The IRS anticipates all refunds will be processed by July 19, 2013.

The IRS filed its appeal of the District Court's decision on March 29, 2013. All paid tax return preparers must still obtain a preparer tax identification number (PTIN), which can be done on line. The IRS has stated: "We remain confident in our legal authority and committed to protecting taxpayers through implementing reasonable standards in the tax preparation area." ♦

## New Leaders at SEC and FASB

Russell G. Golden will become the next chairman of the Financial Accounting Standards Board, effective July 1, 2013. He will succeed FASB Chairman Leslie F. Seidman, whose term ends on June 30, 2013. Mr. Golden had been a member of the FASB since September 2010, having previously served on the FASB staff for six years, including several years as senior technical adviser. Before coming to the FASB he had been a partner of Deloitte & Touche, LLP, in the National Office Accounting Services Department. Mr. Golden is a licensed CPA in the states of Washington and Connecticut. His term as FASB chair will last until June 30, 2017, when he will be eligible to serve another three years.

Mary Jo White was unanimously confirmed by the U.S. Senate on April 8 and sworn in on April 10 as Chairman of the Securities and Exchange Commission.

George Canellos and Andrew Ceresney were named Co-Directors of the SEC Division of Enforcement; Anne K. Small was appointed the agency's General Counsel; and Andrew Bowden was named Director of the Office of Compliance Inspections and Examinations. ♦

## NASBA Comments to PCC (Continued from page 1)

decision-making process, the letter also advised the PCC and the Financial Accounting Standards Board that they should not be "overly constrained by the Guide" and they "should make whatever changes in private reporting they deem necessary as their work unfolds. There are likely unforeseen issues that are yet to be contemplated at this stage of the PCC's development." ♦

## AICPA Specialty Credentials to Go Outside U.S.

The American Institute of Certified Public Accountants has been given the okay to award outside the United States its credentials in Accredited Business Valuation (ABV), Certified Financial Forensics (CFF), Personal Financial Specialist (PFS) and Certified Information Technology Professional (CITP). The AICPA Council voted approval of this plan on May 20. The plan calls for awarding these credentials through non-U.S. accounting bodies and individuals obtaining those credentials would need to remain members in good standing with the awarding bodies.

Initially the AICPA is exploring making the specialty credentials available through the Chartered Institute of Management Accountants. The AICPA is also considering entering into a pilot program with the Chartered Professional Accountants of Canada that would focus on specialties in forensics and IT. AICPA Senior Vice President Anthony Pugliese announced that the idea is to develop credentials that are recognized throughout North America. ♦

## PCAOB and Chinese MOU (Continued from page 1)

other with the fullest assistance permissible to secure compliance with the respective Laws and Regulations of the Authorities."

It also states: "A Party may share non-public information obtained in connection with cooperation under this MOU with certain law enforcement or regulatory authorities within its jurisdiction."

The PCAOB may share such information only with those entities identified in section 105(b)(5)(B) of the Sarbanes-Oxley Act, as amended, which states that these entities "shall maintain such information as confidential and privileged."

*Reuters* reported that Deloitte has asked a federal judge to dismiss the SEC's lawsuit brought against the firm for refusing to produce audit work papers and other documents related to China-based Longtop Financial Technologies, which was being investigated by the SEC (see *sbr* 6/12). ♦

## PCAOB Meets with NASBA Leaders

On May 1, a delegation of NASBA leaders, including Chair Gaylen Hansen, President Ken Bishop, Vice Chair Carlos Johnson and Executive Vice President Colleen Conrad, met with all the members of the Public Company Accounting Oversight Board in their Washington, D.C., office to formalize the relationship between the organizations. President Bishop reported their discussion centered on the importance of having NASBA staff and PCAOB staff coordinate their efforts. Both groups agreed to schedule an annual face-to-face summit meeting of the PCAOB members and NASBA leadership. ♦



## Watch Out for Falling Rocks

*The power of the pen is interesting. Despite being only a single page in a monthly newsletter, I have been surprised by the number of comments I receive around the country from readers of the NASBA State Board Report who specifically reference issues raised in my "Memo." Often my articles have a subtle message delivered in my conversational style. On occasion (such as the "Photos on the Wall" December Memo about diversity) the message is direct, more critical and may not be equally appreciated by all readers. I suspect this month's Memo will fall into that category.*

If you travel around the country you may see traffic signs that warn you to "Watch Out for Falling Rocks" or maybe of a "Moose Crossing." It is also quite likely that you have never actually seen a rock fall or a moose cross the highway; however, the diligent thing to do is to exercise increased caution. There are currently some warning signs in the accountancy regulator's path.

I recently attended a meeting in Washington, DC, with several leaders of the U.S. financial and accounting communities. In a discussion about the soon-to-be-released "Financial Reporting Framework for Small- and Medium-Sized Entities" (Framework), one leader referred to it as "GAAP Lite" and another as "GAAP for dummies." I realize that these comments were tongue-in-cheek; however, these remarks clearly infer that the bar is being lowered from the current GAAP standards.

As reported (see *sbr* 2/13), NASBA has not supported the proposed Framework and, in a letter to the AICPA, requested that the release of the Framework be delayed to allow the newly formed Private Company Council an opportunity to develop or consider authoritative standards to address the issues and concerns raised in the AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies' findings. While NASBA and AICPA agreed then, and today, that changes were needed in GAAP to address small and medium entities (SMEs), we continue to disagree on how that is to be done.

I have heard many conversations ascribing petty reasons for the rush to release the proposed Framework. However, I work closely with the good folks on both sides of this issue, and I choose to believe that despite strong differences of opinion and positions on the issue, the motivation of all involved is to get to a high quality result and provide an alternative to current GAAP. So what are NASBA's concerns?

One of our biggest concerns is the precedent this sets. Currently, accounting standards are established by the Financial Accounting Standards Board. There have been several OCBOAs (Other Comprehensive Basis Of Accounting - cash basis and tax basis) that have been extensively used for a number of years, with no standards in place and some "guidance," but they are pretty clear cut. One is based on the movement of cash, and the other on the Internal Revenue Code. The proposed Framework appears to be a mix of the Canadian Financial Reporting Framework, GAAP and tax basis OCBOA, for the most part, and will be confusing at best. The fact that it is non-authoritative is problematic, as it will be difficult to regulate. What if other organizations decide to start developing and issuing their own versions of what they call OCBOA for general use? This could create chaos. How is this in the public interest?

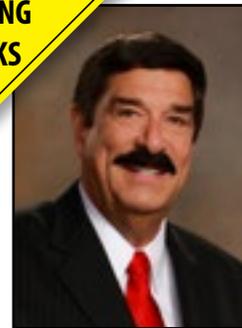
Secondly, the Framework does not define "SME" (small or medium-sized entity), and, even with many comments regarding the issue, AICPA does not appear to intend to define what falls within that term. The result is that any non-public entity could use the Framework, regardless of size or complexity. This provides much opportunity for abuse by companies who want to avail themselves of the "pick and choose" nature of the Framework to optimize the view of their financial condition.

Finally, we are very concerned with the way the proposed Framework was developed. It was essentially written before it went to the appointed task force. It was only briefly exposed, and the resulting objective suggestions and concerns (including NASBA's) appear to have been ignored. AICPA has indicated plans to have its staff, assisted by a task force, revisit the Framework every three to four years. How can this be launched and regulators asked to stand by and watch it being used with no formal monitoring of what is not working, where there are abuses, or how the investor/lending communities react to it? As a non-authoritative alternative to GAAP, the Framework will be essentially unregulated, can be used by non-CPAs and, we believe, be potentially harmful to the public.

The NASBA Board of Directors spent most of their April meeting discussing the Framework, the denial of their request that the release be stopped, and what action NASBA should take. Ultimately, the discussion evolved into a wider policy discussion as to whether professional associations should be allowed to issue alternatives to authoritative standards and, more importantly, should Boards of Accountancy have a voice in what is clearly a public protection issue. Beginning at our Regional Meetings in New Orleans and Chicago, we will discuss a proposal for developing model rule language for the Boards of Accountancy that would empower them to consider the appropriateness, validity and risks associated with any proposed non-authoritative standard before approving its use in the state.

As of this writing, a rock has not fallen, nor has a moose been sighted. However, there are certainly warning signs. State Boards need to pay attention to these important issues. NASBA will be there to provide support. In the meantime, "Look out for falling rocks!?"

*Semper ad meliora (Always toward better things).*



Ken L. Bishop

— Ken L. Bishop, President and CEO

## PROC and CPE Conferences Ahead

On July 10, NASBA will present the Peer Review Oversight Committee (PROC) Summit to provide practical implementation guidance for State Boards of Accountancy working to effectively oversee the peer review reports of the firms they regulate. A panel session, “Managing the Process: A Cross Section of PROCs,” will present firsthand accounts of what has worked as best practices in the states. Speakers will include Texas PROC Chair Mason Andres, Oklahoma PROC Chair Mike Gibson, Mississippi PROC Chair Wiloughby Wright and National Peer Review Committee Member Art Sparks. The meeting will be held in the Renaissance Hotel in downtown Nashville, TN. Details about registration can be found on [www.nasba.org](http://www.nasba.org).

NASBA will also present the National Registry Summit, September 9-10 at the Hotel Sorella in Houston, TX. The conference will cover trends in learning, relevant operational changes in NASBA’s CPE Sponsor Registry and best practices, plus it will offer numerous opportunities for networking among continuing professional education providers.

The keynote speaker will be Paul McGinniss of the NeuroLeadership Group, who will conduct an interactive session on “The Neuroscience of Learning: New Insights for Delivering High Impact Learning.” Program details and registration information can be found on [www.nasba.org](http://www.nasba.org). ♦

## Haberman Named VP

Louise Dratler Haberman, editor of the *State Board Report*, has been appointed NASBA’s Vice President of Information and Research. In making the appointment, NASBA President Ken Bishop said: “As NASBA’s longest serving staff member, Louise represents NASBA in some of our most important committees and processes including Regulatory Response, Uniform Accountancy Act, International Qualifications and Appraisal Board, and liaison to our Relations with Member Boards Committee. Additionally, she is responsible for running our New York office. Her contributions to NASBA are tremendous and we look forward to her continued dedication and leadership for years to come.”

Prior to joining the NASBA staff, Ms. Haberman was an editor of *New Accountant Magazine*, managing editor of the AICPA’s *Management Adviser*, and on staff of the AICPA’s *Journal of Accountancy* and *CPA Letter*. She has been involved in the content development of many NASBA meetings and activities, and has served as staff liaison to numerous NASBA committees, ranging from the Legal Counsel Committee to the Public Perception Committee. ♦



Louise Haberman

# State Board Report

National Association of State Boards of Accountancy  
150 Fourth Avenue North, Suite 700  
Nashville, TN 37219-2417