

EDs Learn About Tech Pathway

The concept of a technology pathway for acquiring the CPA was discussed at the 36th Annual Conference for Executive Directors and State Board Staff and the concurrent 23rd Annual Conference for Board of Accountancy Legal Counsel held March 13-15 in Destin, FL. NASBA Chair Theodore W. Long, Jr., and President Ken L. Bishop told the 167 attendees that enough positive response had come from the Boards to encourage a joint NASBA/AICPA task force to continue considering what such a new pathway might entail. Attendees at the conferences were urged to share their ideas about the concept with NASBA leadership, as will those attending the June NASBA Regional Meetings (see *President's Memo*).

"Two things are certain," NASBA Vice President – State Board Relations Daniel Dustin reported, "the pathway will be equally rigorous to what is required for the current CPA pathway, and the credential will be equivalent for those who would come through either pathway. A CPA will continue to be equal to a CPA."

Mr. Long and Mr. Bishop reported on NASBA's recent activities to the attendees, covering the negotiations with international professional groups to develop mutual recognition agreements, the completion of the new Guam testing center, and the successful launch



36th Annual Conference for Executive Directors and State Board Staff.

of the new Gateway system early in March. All but three states had a smooth transition to the new system and states that experienced a temporary delay in their score releases had their problems corrected within a few days. Chair Long and President Bishop thanked the Boards' executive directors and staff for the important part they continue to play in achieving NASBA's goals.

Matthew P. Boshier, chair of the Virginia Board of Accountancy,

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Prometric Promises More Centers

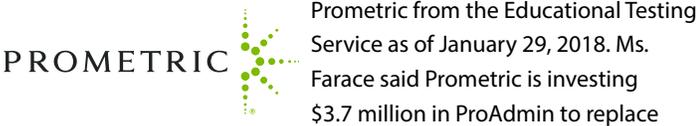
Prometric will be opening test centers in: Marquette, MI; Texarkana, AR; Yakima, WA; Albany, GA; Redding, CA; Lake Charles, LA; and Santa Maria, CA, reported Prometric Director Kim Farace at the Executive Directors Conference. BPEA, a global investment firm, acquired

Prometric from the Educational Testing Service as of January 29, 2018. Ms. Farace said Prometric is investing \$3.7 million in ProAdmin to replace

its site administration software, enabling a more candidate-centric administrative process, and \$2.3 million in ProScheduler to enhance candidate scheduling capabilities. Overall, through 2017-2018 the company is investing \$30.5 million in technology infrastructure and software improvements.

Coming in summer 2018, the ProScheduler will allow candidates to use their phones and tablets to register and schedule their tests. They will be able to search for a seat by date and location, and there will be a wide range of dates offered across a group of geographically adjacent test centers.

Uniform CPA Examination testing accommodations were approved for 465 candidates in 2017, a drop from 564 approved in 2016. Popularly requested accommodations included: time and a half, private room, handheld calculator, and multi-day testing. ♦



Nebraska LB 299 Not Dead

Updating the ED Conference on emerging legislative and legal issues, Nathan Standley commenting on Nebraska LB 299, the Occupational Board Reform Act, said, "We thought the legislation was dead – but it just revived." On March 14 the senators voted 31-0 to advance the bill aimed at creating a legislative office responsible for reviewing

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AE Needs Board Approval

Gaining the approval of a State Board of Accountancy for the acceptance of an administering entity of a Peer Review Program “is critical,” according to Todd Shapiro, chief executive officer of the Illinois Society of CPAs, which administers the program for six states (Illinois, Iowa, Kentucky, South Carolina, West Virginia and Wisconsin). Addressing the Executive Directors’ conference, he explained that the Board needs to work out a timeline with the Society and the AICPA. Whatever the state’s law is, that is with what the AE must comply, Mr. Shapiro explained and pointed out that in some cases the AE might not take on a state’s peer reviews because they would not want to comply with that state’s law.

Beth Thoresen, AICPA Director – Peer Review Operations, assured the Executive Directors that while the AICPA listened to their feedback on the AICPA’s proposal for changing the Peer Review Program’s administration, having a CPA on staff was one of the more controversial areas. It was determined that the skill set of a CPA was needed and it was important for a CPA to be a leader of the program. To overcome the familiarity threat that the AICPA determined exists, the administrators

are being called on to submit a plan for mitigating familiarity. During 2018, the administering entities will be self-monitoring, with the administering entity benchmarks becoming effective May 1, 2018. PRIMA (Peer Review Integrated Management Application) is the AICPA’s web-based tool being used by administering entities, reviewers and firms to manage the peer review process, and it will be monitoring the benchmarks, Ms. Thoresen said. There will be consequences for not meeting benchmarks which will vary by severity of the failure, she explained. ♦



Beth Thoresen discusses Peer Review.

Canada’s Dancey IFAC CEO-Designate

The International Federation of Accountants (IFAC) has selected Kevin J. Dancey, FCPA, FCA, to become their next chief executive officer, succeeding Fayez Choudhury at the end of the year. Mr. Dancey, who previously served as president and chief executive officer of CPA Canada and the Canadian Institute of Chartered Accountants, has long been a trusted adviser to NASBA leadership. He participated in several leadership



Kevin Dancey

summit meetings for the U.S., Canadian and Mexican accounting professions and was a keynote speaker at NASBA’s 2010 Annual Meeting addressing “Global Professionals Reaching Out to Neighbors.”

Mr. Dancey currently chairs Finance Canada’s Departmental Audit Committee and is the national coordinator of the CPA Canada Martin Family Initiative. He served as PWC’s Canadian Senior Partner and Chief Executive Officer, and, prior to the firm’s global merger, he was Coopers & Lybrand’s national tax practice leader. He will join IFAC on May 14, 2018. IFAC has more than 175 member organizations in over 130 jurisdictions.

“Kevin is a practical visionary who successfully guided the Canadian Institute of Chartered Accountants through its reorganization into the unified professional body now respected as CPA Canada,” NASBA President Ken L. Bishop said. “He is truly an outstanding leader of the global profession who understands how regulation strengthens its promise of public protection.” ♦

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gave his views on “Board Leadership from a Public Member’s and Chair’s Perspective.” He described the need for Boards to recognize their role resembles a seesaw – balancing the need for the Board’s independence to protect the public interest with the need to work with the profession to create meaningful regulation in a changing business environment. His message was particularly valuable as the first two days of the executive directors’ conference were also attended by chief executive officers from 26 state CPA societies. This was the third year that the state societies were asked to attend.

All heard a report on legislative trends from NASBA Director of Legislative and Governmental Affairs John Johnson and on recent legal cases from NASBA outside legal counsel Noel L. Allen. Mr. Johnson noted that active supervision legislation, stemming from the Supreme Court’s decision in the *North Carolina Dental Board* case, was introduced in state legislatures in 2016 and 2017 and continues to be introduced in 2018, having passed in seven states. Mr. Allen told attendees that the increasing use of blockchain raises public protection questions about liability, ownership and regulatory compliance. Although what the first State Board blockchain case will look like is uncertain, he encouraged the Boards to consider the outcomes of two recent cases involving blockchain: *United States v. Ross William Ulbricht* (2017) and *re Dole Food Company, Inc.* (2017). ♦

Nebraska LB 299 Not Dead

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proposed legislation that would change occupational regulations.

Mr. Standley explained the Nebraska bill was based on ALEC’s 2012 model “Occupational Licensing Relief and Job Creation Act,” which other states have also been considering (see NASBA’s *Legislative E-News* on www.nasba.org). He reported that the bill’s sponsor had requested the Federal Trade Commission to weigh in on LB 299, and while the Commission supported the general theme of the bill, they took issue with some of its pillars. The FTC observed: “We note that the Bill envisions a comprehensive and resource-intensive statutory and regulatory review, and that the personnel and other resources allocated to the task are uncertain.” They also pointed out: “The FTC staff do not believe that the regulatory review contemplated under the Bill would be adequate to support claims of state action immunity.” ♦

PRESIDENT'S MEMO

An Open Mind

State Board members, executive directors and associates should have recently received a thoughtful message from NASBA Chair Ted Long regarding the June NASBA Regional Meetings. His specific request was that you come to those meetings prepared for a meaningful dialog and, importantly, with an "open mind." I echo that appeal and hope that you will make an extra effort to attend your Regional Meeting this year. It is critical that all Boards of Accountancy participate in the important conversations that will impact the future of the profession and regulation.

We have been talking and writing about the increasing use and reliance on technology and, specifically, the impact it will have on the future of the profession. Events this year have only amplified the importance of that discussion.

In February, the Internal Revenue Service (IRS) issued summonses to Coinbase (the world's most popular cryptocurrency exchange) for the names, taxpayer IDs, addresses and transaction records for clients who conducted transactions of more than \$20,000 between 2013 and 2015. Other cybercurrency trading engines and platforms are also receiving inquiries from the IRS. Many Bitcoin and other cryptocurrency users were blindsided by the discovery that they would owe taxes on transactions they had believed were decentralized, non-trackable and unregulated. Trading entities in the U.S. are now issuing 1099-K tax forms to customers. With the use of blockchain and digital encryption for the cryptocurrency exchange medium, CPAs and firms will need a new level of technology comprehension to service these types of transaction engagements.

In March, the U.S. Securities and Exchange Commission (SEC) issued stern warnings to companies and cryptocurrency trading exchanges against hyping the sale of cryptocurrency, and indicating that they would be issuing subpoenas and scrutinizing the activities of these entities. Similarly, the Commodity Futures Trading Commission (CFTC) has joined the SEC in warning about fraudulent activities, including "pump-and-dump" schemes. The SEC, IRS and CFTC are not alone in their rising interest and concerns about the ramping-up of technology-based currency and investment practices. China recently ordered the removal of all promotion of cryptocurrency schemes from the Internet, and other major countries are looking at the issue. Ultimately, in the U.S. the CPA profession will be called upon to help decipher and account for both the gains and losses of this new type of investment.

Over the last few years at NASBA meetings we have discussed the increasing reliance on technology and data analytics in auditing and accounting, particularly in the largest firms. That trend is expanding. New products are coming to market that will allow firms of all sizes to use technology and consider big data in their engagements. That transition to new systems and methodologies will continue to escalate requiring all of us to consider the consequences, the possible regulatory ramifications and the necessary preparations.

One of the possible approaches we have publicly discussed is a new "technology pathway." While the pathway is still only a concept, some stakeholders have already embraced it -- and others are challenged by it. I am not surprised. Any departure from tradition should, and will be, challenged. At the Regional Meetings, our goal is to provide you with current and focused information about the pathway and other possible considerations that we hope will answer your questions and dispel some of the misinterpretation and concerns as to what is being discussed.

As with any proposed initiative, confusion abounds. I have heard that we are promoting turning "IT staff" into CPAs, and that the public will believe that there are two types of CPAs, neither of which is true. What we are talking about is attracting candidates with technology acumen, who probably have never considered becoming a CPA, to fill a need in the profession, including those in current accounting technologist positions. Their education, testing and license requirements would have to be as rigorous as the current requirements so that the resultant CPA would be indistinguishable to the public from any other CPA.

I could write volumes on how technology-driven change will create both major benefits and new concerns for an evolving profession. The point of these illustrations is not to predict the future, but to recognize that these are current situations that require skills and comprehensive knowledge that are unprecedented. Whatever actions we take, we must be careful to not disrupt the current pathway, and to protect and maintain the integrity and public perception of the CPA credential. As Chair Long stated in his message, "Nothing has been decided nor committed to as to what the best course of action is," but "the risk of doing nothing is substantial."

I look forward to continuing our discussions, where we should all come prepared and with "an open mind."

Semper ad meliora (Always toward better things).



Ken L. Bishop
President & CEO



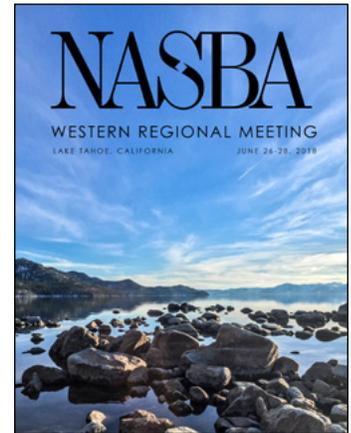
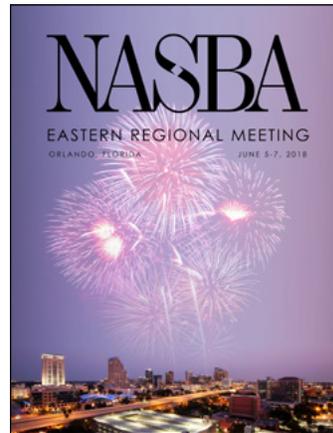
A handwritten signature in black ink that reads "Ken L. Bishop".

— Ken L. Bishop
President & CEO

2018 Regional Meetings

The time has come to sign up for NASBA's Regional Meetings. The Eastern Regional Meeting will be held June 5-7 in Orlando, Florida, and the Western Regional will be held June 26-28 in Olympic Valley, California (in the Lake Tahoe area). This year's agenda includes evolving issues such as: considering a technology pathway to the CPA; the impact of the AICPA's reorganization on the operations of State Boards of Accountancy; enhancements in accounting education; challenging legal cases; technology issues; Uniform CPA Examination advances; international agreements; and controversial ethical standards. The meetings will also provide ample time to meet with representatives from other State Boards of Accountancy to exchange experiences, opinions and recommendations.

For those who have joined their Board since June 1, 2017, there will be a full-day orientation program on June 5 at the Eastern Meeting and June 26 at the Western Meeting. The program covers guidance on serving on a Board of Accountancy along with information about what NASBA does and how to become involved in the organization. Scholarships are available for this program, along with registration to



the Regional Meeting. State Board Executive Directors should contact NASBA Meetings Director Thomas Kenny (tkenny@nasba.org), to apply for these scholarships for new Board members.

Registration forms and additional program details can be found on www.nasba.org. ♦

Legal Counsel Hear About Blockchain

The participants in the 2018 NASBA Conference for State Board Legal Counsel once again praised the event for enabling the attorneys to interact with their peers serving other Boards of Accountancy. This year 34 attendees exchanged information and reviewed the implications of recent legal cases impacting the State Boards of Accountancy. A presentation by BDO's Jeff Ward and Greg Schu on "Blockchain: Why is Everyone Getting Excited About This Technology?" laid out for the attorneys some of the challenges CPAs recognize in this area. Mr. Ward commented, "Blockchain is here to stay" and reported that his firm had joined with others in the Accounting Blockchain Coalition to keep current with its rapidly changing elements. ♦

Court Upholds Right to Accounting Expert

The Public Company Accounting Oversight Board, under its current rules, must allow a witness the assistance of an accounting expert when such an expert could assist counsel at an investigative interview, the US Court of Appeals for the District of Columbia decided on March 23 in the case of *Mark E. Laccetti v. Securities and Exchange Commission* on petition for review of an order of the SEC. The Court suggested the PCAOB could have required that such an accounting expert not be affiliated with Mr. Laccetti's firm. They concluded that this exclusion was not a harmless error, pointing out that the SEC had conceded that the PCAOB's decision to institute proceedings against Mr. Laccetti "may have been based in part upon his investigative testimony."

The case goes back to the PCAOB's instituting disciplinary proceedings on October 20, 2009 alleging violations of PCAOB rules and auditing standards by Mark E. Laccetti, CPA, who was the engagement partner for Ernst & Young's audit of the financial information of Taro Pharmaceutical U.S.A., Inc., for the year ending December 31, 2004. The hearing officer issued the initial decision on April 20, 2011 and imposed a six-month suspension from association with any registered public accounting firm and a \$25,000 civil penalty for the violations found, and otherwise dismissed the case against Mr. Laccetti. He petitioned the PCAOB for review of the case and on January 26, 2015 they found he had failed to exercise due professional care and barred him from

associating with a registered public accounting firm for two years and ordered him to pay an \$85,000 civil penalty. Mr. Laccetti took his case to court asking that the orders and sanctions against him be vacated as the PCAOB had infringed on his right to counsel by unreasonably barring the accounting expert from assisting counsel at the interview.

The Appeals Court noted: "The Board [PCAOB] stated that it denied Laccetti's request because Laccetti's expert was employed at Ernst & Young. The Board did not want Ernst & Young personnel present for the testimony of the Ernst & Young witnesses because it apparently did not want Ernst & Young personnel to monitor the investigation." The Court pointed out: "Given the presence of the Ernst & Young attorney at the interview, the Board's rationale for excluding the Ernst & Young accounting expert – that the Board did not want Ernst & Young personnel to be present – makes no sense here."

The Appeals Court granted Mr. Laccetti's petition for review, vacated the SEC's order and remanded with direction that the SEC vacate the PCAOB's underlying orders and sanctions. They concluded: "the only reasonable remedy is for the Board [PCAOB], if it chooses and if the law otherwise permits, to open a new disciplinary proceeding against Laccetti and, if it chooses to re-interview Laccetti, to do so without violating his right to counsel. The right to counsel is guaranteed by the Board's rules." ♦

ECI Finds More Pressure to Compromise

How employees view the prevailing ethical culture within organizations is the focus of a March report from the Ethics & Compliance Initiative (ECI). The report, funded by Deloitte, KPMG, PWC, the Center for Audit Quality and several large corporations, states that while 47 percent of the employees interviewed reported they had observed corporate misconduct, that was 8 percent less than what had been observed in the previous year. Which might seem like good news, but of those who observed misconduct, 63 percent said it was by someone in management or a first-line supervisor, and of those 67 percent said it was multiple incidents. The misconduct observed in 70 or more of these cases were in: misuse of confidential information; giving or accepting bribes or kickbacks; stealing; failed specifications; and sexual harassment. The findings reflect 5,101 responses collected in 2017 from people who were 18 or older and employed by their primary employer for at least 20 hours per week.

Among the presentations at NASBA's June Regional Meetings will be an update on ethical issues, including how a CPA should respond to a client's noncompliance with laws or regulations ("NOCLAR"), and a session on what an accountancy board might do in cases of sexual harassment. Meeting participants will be asked to give their views on these and other topics.

Ethical Leadership Questions

James Madison University has established an Ethical Reasoning in Action group that has successfully added a required course in ethical reasoning to the curriculum of all accounting students. Addressing the Executive Directors Conference, Dr. Bill Hawk described how his team developed basic questions that ethical leaders should ask themselves.

Dr. Hawk suggested these questions be asked in groups with at least one outsider included in the discussion. He referenced a book entitled *Why They Do It*, by Eugene Soltes, which includes interviews with convicted criminals, including Bernard Madoff. Dr. Hawk pointed out that all of the white-collar criminals interviewed had failed to answer these questions in a group. (See box at right.)

According to Dr. Hawk's findings, very little ethical change is based on one leader. "We need to trust each other and challenge each other. We need to drive us back to what we agree on...It's a great challenge," he observed. ♦



Dr. Bill Hawk discusses ethical reasoning with Executive Directors.

The ECI's annual studies have discovered an ongoing trend of employees increasingly experiencing pressure to compromise standards. In 2017, such pressure was experienced by 16 percent of all those who answered the questionnaire.

"Pressure creates an environment in which questionable business practices are almost twice as likely to be accepted. Sixty-three percent see such practices rewarded, fueling the likelihood that violations will appear," the report states. "These findings are troubling, because increases in pressure have shown to precede a weakening of ethical cultures."

As the ECI reported continuing misconduct, the Securities and Exchange Commission reported its highest-ever Dodd-Frank whistleblower awards, with two whistleblowers sharing a nearly \$50 million award and a third whistleblower receiving more than \$33 million. "These awards demonstrate that whistleblowers can provide the SEC with incredibly significant information that enables us to pursue and remedy serious violations that might otherwise go unnoticed," said Jane Norberg, Chief of the SEC's Office of the Whistleblower. "We hope that these awards encourage others with specific, high-quality information regarding securities laws violations to step forward and report it to the SEC." ♦

8 Ethical Leadership Questions

Fairness:

How can we act justly, equitably, balancing interests?

Outcomes:

What are the short- and long-term outcomes for all?

Responsibilities:

What duties and obligations apply?

Character:

What actions help us become our ideal?

Liberty:

How do we respect personal freedom (autonomy)?

Empathy:

How would we act if we cared about all?

Authority:

What do legitimate authorities (e.g., experts, law, my God) expect?

Rights:

What rights (e.g., innate, legal, social) apply?



GAO Releases AI Forum Report

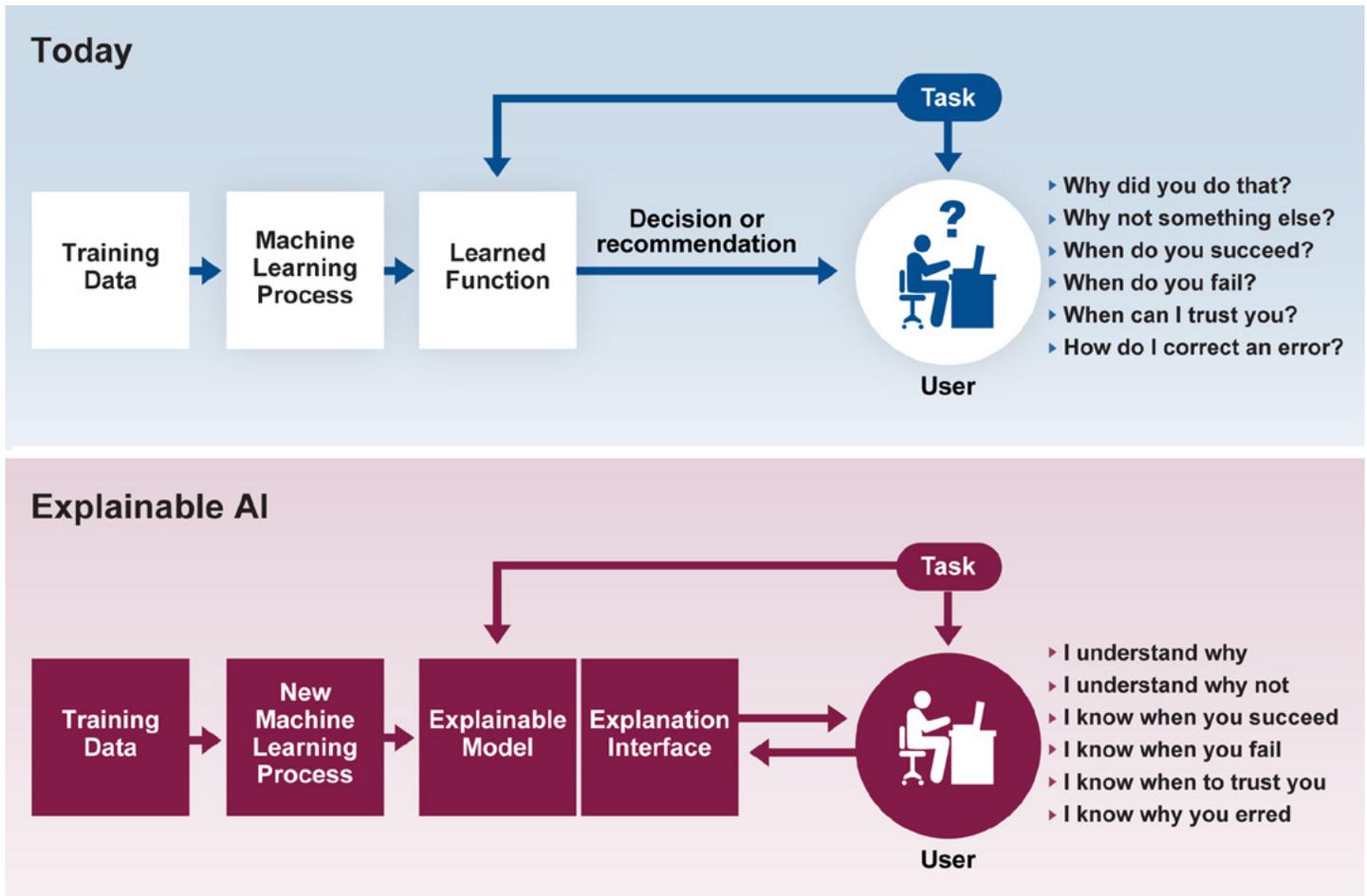
A comprehensive summary of the information exchanged at the Government Accountability Office's forum on "Artificial Intelligence: Emerging Opportunities, Challenges, and Implications," has been released by the GAO (GAO-18-142SP). Among the topics discussed by the assembled experts was the merit of linking regulation to technology, or "regtech." One forum participant explained that "in such an alternative regulatory channel, those entities being regulated could be afforded the option to submit their regulatory data in a more transparent and real-time manner for review by regulators while reducing other reporting requirements. Implementing a data-intensive regtech approach, where data are reviewed against understood standards, would allow both regulators and those they are regulating to better understand whether desired outcomes are being achieved."

As the NASBA Compliance Assurance Committee and Uniform Accountancy Act Committee consider revisions to the UAA and the Model Rules, predictions of future possibilities seem particularly pertinent. In 2015 the AICPA issued a concept paper on "The Future of Practice Monitoring" that would involve a technology platform joining human oversight with near real-time continuous analytic evaluation. However, the changes being considered now for the UAA and Model Rules are refinements of the current peer review program to more accurately reflect present practices.

The GAO's report states that one forum participant "observed that technology exists to address many problems in finance, but poor regulation practices have hindered these potential gains. Regulatory structures, according to this participant, are full of gaps and are based on long-standing history and mandates rather than current practices. As a result, this participant believes that the current regulatory framework will not allow innovation and may miss negative changes that enter into the system."

AI technologies will be developing systems that "are not only capable of adapting to new situations, but also are able to explain to users the reasoning behind these decisions." However, "today's machine-learning systems are black-box systems for which users are unable to understand why the system makes a specific decision or recommendation, why a decision may be in error, or how an error can be corrected. The goal of explainable AI is to develop machine-learning systems that provide an explanation for their decisions and recommendations and allow users to know when, and why, the system will succeed or fail."

The GAO concludes its report by stating that "the testimonial evidence of experts in this engagement is not being used to develop GAO recommendations for executive-branch actions or to present matters for congressional consideration." ♦



Source: GAO and Defense Advanced Research Projects Agency (DARPA). | GAO-18-142SP

A Look at the 36th Annual Executive Directors and State Board Staff Conference



Executive Directors and Legal Counsel share luncheon honoring Executive Directors and Board staff.



NASBA celebrates ED Jimmy Corley's birthday.



Randy Ross and Nathan Standley review trends.



Ted Long (left) talks with Bill Tracey about IQAB.



Wade Jewell congratulates Randy Ross as ED Chair.



Boyd Busby tells how ALD is effectively used.



Stephanie Peters State Society Relations Chair.



Meeting Attendees consider how to balance public and professional input.



Wade Jewell and Kent Absec performed as Willie Nelson and Julio Iglesias.

NASBA Committees and Nominees

State Board members, executive directors and NASBA associates are reminded to submit 2018-2019 NASBA Committee interest forms and nominations for positions on the NASBA 2018-2019 Board of Directors.

The Committee request process is online. Please submit selection(s) by following the instructions at: <https://nasba.secure.force.com/>. All State Board members and NASBA associates are eligible to serve; however, note that associate members must meet the rules and guidelines set forth in NASBA's Bylaws, which may be found on www.nasba.org.

Qualified current State Board members and NASBA associates interested in seeking a NASBA Board position are encouraged to submit letters of interest with biographical information to Nominating Committee Chair Telford Lodden (via Anita Holt at aholt@nasba.org) by May 29, 2018. Three Directors-at-Large and all eight Regional Directors will be elected at the Annual Business Meeting on October 30, 2018. All Regional Directors must be members of their State Board of Accountancy at the time of the Annual Business Meeting or within six months of completion of their term on the State Board at that time. Interested individuals will receive a questionnaire for their completion from the Nominating Committee.

May 29 is also the deadline for nominations for 2018-2020 Nominating Committee members from the Central, Middle Atlantic, Pacific and Southeast Regions. The election of Nominating Committee

members and alternates will take place during the Regional breakout sessions at the June Regional Meetings. A letter of interest and biographical information should be submitted to aholt@nasba.org.

Nominating Committee members are not eligible to serve on the NASBA Board of Directors while on the Committee or for a year following their service. ♦

VA Lets Loan Defaulters Keep Earning

Virginia has amended its Code to repeal the authority of the Board of Accountancy, Department of Professional and Occupational Regulation and the Department of Health Professions to revoke or suspend the license, certificate, registration permit or authority of a person who is in default or delinquent in payment of a federal-guaranteed or state-guaranteed educational loan or work-conditional scholarship solely on the basis of such default or delinquency.

In November, the *New York Times* had reported that 19 states at that time authorized licensing boards to revoke professional licenses based on defaulting of student debt, placing at least 8,700 individuals at risk of suspension or loss of license (see *sbr* 12/17). ♦