

Boards Support Change

NASBA Chair Ted Long reminded the State Board representatives at the June Regional Meetings that they need to be open-minded about ideas being presented at the forums. From the conversations held during the Regions' breakout sessions, it was evident that the Boards' members were listening and were convinced that change is necessary to keep relevant the required education for CPAs – but exactly how that is to be accomplished remains to be determined. The Eastern Regional Meeting, June 5-7 in Orlando, FL, had 183 attendees and the Western Regional, June 26-28 in Olympic Valley, CA, had 164 attendees. With guests there were over 200 at each of the meetings, with 51 Boards represented at the two meetings.

The concept of a technology pathway to the CPA, in addition to the traditional pathway, raised many questions. Executive Vice President and COO Colleen Conrad and Vice President – State Board Relations Daniel Dustin laid out the concept for the Boards, but noted as staff and volunteer workstreams were still discussing how the details might work best if ultimately a decision was made to move forward. This lack of specificity in the concept piece coupled with doubts about the market demand for such a pathway resulted in those at the meetings voicing support for the need to change, but doubting that the technology pathway should be given additional study. Among the questions raised following Ms. Conrad's and Mr. Dustin's presentation were:

"What would happen to individual and firm mobility if all states did not adopt a second pathway at the same time?"

"When deregulation is being considered in many states, is this the right time to seek to bring more groups under regulation?"

"Why not follow the idea that what accountants need to master is evolving and change the accountancy core skills?"

AICPA Vice President – Examination Mike Decker told the Western Regional: "The AICPA Examinations Team is writing items faster than before, with more than 150 writers now." He explained that Examination candidates are directed to look at the latest Examination blueprint because the content has changed every quarter since 2006. "To say the Examination will change only every 6-7 years does not work anymore," he stated. Ms. Conrad noted that the AICPA is looking at ways to be more nimble with the practice analysis.

"We are constantly looking at what is happening in the profession," reported Richard Gallagher, Senior Director of Content, Examinations, AICPA, at the Eastern Regional Meeting. "There is exponential change. Data analytics is happening." Although he did not think the AICPA is ready to begin a new practice analysis yet, he did say they are working up sample items and thinking about using Excel for audit data analytics questions.

Excel came into the examination in April 2018, and Mr. Decker said the launch of this new software was flawless.

NASBA President Ken Bishop told the Western Meeting's Board Chairs and Presidents: "As I said in my recent 'Memo', an organic change in the existing pathway is the most intuitive, albeit with risks of disruption of the pipeline. The feedback from the NASBA Regional Meetings and the AICPA Council meetings is consistent and offers us alternatives to consider. I think it is time for us to refocus on alternative solutions that mitigate the risk as much as possible." ♦



The Eastern Regional Meeting gathered 183 attendees and guests in Orlando.



The Western Regional gathered 164 attendees and guests in Olympic Valley.

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Nominating Committee Announces Slate

The NASBA Nominating Committee met on June 28 in Olympic Valley, CA, and selected the following individuals as their nominees for Directors-at-Large and Regional Directors, as reported by Nominating Committee Chair Telford A. Lodden (IA):

Directors-at-Large (three-year term)



A. Carlos Barrera, CPA (TX)



Sharon A. Jensen, CPA (MN)



Stephanie M. Saunders, CPA (VA)

Regional Directors (one-year term)



Central
Faye D. Miller,
CPA (ND)



Great Lakes
Sheldon P.
Holzman, CPA
(IL)



Middle Atlantic
Michael H.
Womble, CPA
(NC)



Mountain
Nicola Neilon,
CPA (NV)



Northeast
Catherine R.
Allen, CPA (NY)



Pacific
Katrina Salazar,
CPA (CA)



Southeast
Jack Anderson
Bonner, Jr., CPA
(TN)



Southwest
C. Jack Emmons,
CPA (NM)

2018-20 Nominating Committee Selection

At the 2018 Regional Meetings, four Regions' Nominating Committee delegates and alternates were selected, in accordance with Article VII Section 3 of the Bylaws. The newly elected 2018-2020 Nominating Committee members are:

- **Central: Delegate - Michele M. Stromp, CPA (NE); Alternate - Holly Brunick, CPA (SD)**
- **Pacific: Delegate - Raymond N. Johnson, CPA (OR); Alternate - Thomas T. Ueno, CPA (HI)**
- **Middle Atlantic: Delegate - Marc Moyers, CPA (VA); Alternate - Barton W. Baldwin, CPA (NC)**
- **Southeast: Delegate - Willie B. Sims, Jr., CPA (MS); Alternate - David L. Dennis, CPA (FL).**

As previously announced, Laurie J. Tish, CPA (WA), is the Nominating Committee's choice for Vice Chair 2018-2019, to accede to Chair 2019-2020 if elected Vice Chair by the member Boards at the October 30, 2018 Annual Meeting in Scottsdale, AZ. Elections for the other NASBA officers will also take place at that time. Nominations may also be made by any five of the member Boards if filed with NASBA Chair Theodore Long 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. ♦

Is Additional Experience Needed?

At the Regional Meetings, Board representatives were asked to consider adding a competency requirement to firm registration that would call for additional experience, beyond the basic one year of general experience described in the Uniform Accountancy Act, for individuals who sign audit and examination reports. NASBA Vice President – State Board Relations Daniel Dustin described what would possibly be a condition for registration of CPA firms doing this type of work. Based on a review of what is being required of auditors with signing rights in other countries, a starting point for further research and discussion is the suggestion that the person signing would have at least 2,000 hours of experience in audit and/or examination services within the last five years. Firms that did not have an individual licensee who met that criteria would have each audit and examination engagement subject to an Engagement Quality Control Review until the firm had a licensee who met that requirement.

This suggestion brought mixed responses from the Boards' representatives. There was agreement that firms need to have the appropriate competency for the engagements they undertake, and while competency is required in most states and the AICPA Code of Conduct, which 43 States refer to in some way, the Code does not define what makes a licensee competent to supervise, sign or authorize someone to sign an accountant's report. Meeting attendees listened to Sharon Jensen (MN) and Telford Lodden (IA) report on the

mutual recognition agreements that the NASBA/AICPA International Qualifications Appraisal Board have developed and learned about the different requirements in other countries for those responsible for signing reports. All have more experience required prior to being designated the responsible party.



Dan Dustin outlines added experience idea.

While the Board members voiced support for measures to improve audit quality, questions were raised about whether adding to the experience requirement would accomplish that objective. Firms with experience have performed poorly too. Some Boards presently have in their laws more than one year of required experience.

The Board Chairs were asked to go back to their Boards and continue exploring the topic. If such a requirement has the support of the Boards, the AICPA/NASBA Uniform Accountancy Act Committee will be asked to develop proposed language for consideration of the Boards. ♦

PRESIDENT'S MEMO

“That Dog Ain’t Gonna Hunt!”

For many months we have been discussing the impact of technology on the accounting profession and, specifically, considering a new “technology pathway” to become a CPA. The culmination of that process for NASBA took place at the Regional Meetings, where thoughtful and passionate discussions occurred. Saying that there was a “lack of support” for the two-path concept would be an understatement: In fact, there was strong and consistent opposition to the concept. As my old grandpa used to say: “That dog ain’t gonna hunt!” After listening to and reflecting upon your feedback, by the end of the Western Regional Meeting I had advised NASBA’s governance leadership that I no longer supported pursuing the two-pathway concept and suggested we consider a new approach. Chair Ted Long has placed this as a major item on the agenda for the NASBA Board of Directors’ meeting in July.



Ken L. Bishop
President & CEO

So where does that leave us? First, let me state that leadership was very pleased with the robust debate that occurred at the Regional breakouts and in other forums across the country. While it became obvious that the proposal, admittedly a somewhat radical idea, was unacceptable to most of our Boards, there was a clear consensus that we need to do something. The comments we heard most frequently were: “We are glad NASBA and AICPA are focusing on this issue” and, “The current pathway needs to be modified to address the use and reliance on technology.” The responses from the Boards were not inconsistent with the feedback from recent AICPA Council meetings. Similarly, from the discussions that I have had with individuals, large firms, state societies and several other stakeholder groups, the support for evolving the current pathway to become a CPA is prevalent.

It was clear to me that many of our volunteers came to the meetings well prepared to discuss this initiative. The insightful comments we received included suggestions and recommendations to be considered in lieu of the proposed technology pathway. NASBA staff have been consolidating and categorizing those comments as we prepare for leadership meetings with the AICPA to consider next steps. I am hopeful that we can refocus our efforts without losing the momentum resultant from the work to this point.

We have already begun discussions with our AICPA counterparts, both volunteers and staff, about the ideas and opportunities that developed during the exposure process. Those discussions will be formalized at the upcoming AICPA/ NASBA Summit in August and in senior staff preparation meetings for the Summit. I am optimistic that we can quickly pivot to a new course of action that addresses the need for change with as little disruption to the current pipeline and marketplace as possible. Hopefully, we will have a new approach fleshed out by the NASBA Annual Meeting in late October.

I am writing this *President’s Memo* near the end of our fiscal year -- and what a year it has been! Beyond the technology discussions, this has been a year of development and implementation of several major IT projects, the completion of the NASBA buildout at our Nashville offices, the opening of our new Guam testing and call centers, and a restructuring of several of our business and service operations.

For most of us at NASBA, the pinnacle measurement of a successful year is our relationship with you, our member Boards. This year we had a record 54 states and territories represented at the NASBA Annual Meeting and 51 participated in this year’s Regional Meetings. Other records include the number of requests for assistance by State Boards, the amount (nearly \$10 million) of mission spending in support of State Boards, the number of Student Chapters (now 40) in our Center for the Public Trust subsidiary and, finally, we have continued to grow NASBA’s net assets to a record amount, assuring we can continue to fulfill our mission to support Boards of Accountancy. This is my opportunity to say “thank you” to the many NASBA volunteers who helped make all of this possible, and for the support and trust given me again this year.

Mark your calendars for what is going to be an informative and truly memorable 111th NASBA Annual Meeting in Scottsdale, AZ, on October 28-31.

Semper ad meliora (Always toward better things).


— Ken L. Bishop
President & CEO



Executive Vice President Colleen Conrad describes plans for the Exam.

Opening the Exam Windows

Executive Vice President and Chief Operating Officer Colleen Conrad reported that the NASBA/AICPA/Prometric group is researching the possibility of continuous testing, or at least shortening the dark period when candidates are unable to test. NASBA is asking for input from the State Boards on this idea because it would require a rule change as candidates could possibly retake the same section of the Examination more than once in each window. Also this would allow candidates to potentially take the Examination more times during the 18 months now set in the Boards' rules and the Boards' feedback on that change is also being requested by Ms. Conrad and NASBA Director of Examination Services Patricia Hartman.

NASBA, AICPA and Prometric are also expecting to announce later this summer that candidates will be able to take the Uniform CPA Examination in Prometric testing centers in Germany, Ireland and the United Kingdom sometime soon. Besides residents of those countries, it is also anticipated that candidates from the European Union, Norway, Russia, Switzerland and the United States will be able to take the Examination in the newly added locations. The Examination is now being administered in Prometric centers in Japan and locations in South America and the Middle East, besides the United States.

A second score release from the new Gateway system went out in late June. Ms. Conrad reported it has gone smoothly and NASBA will continually improve the releases to meet the individual needs of the 55 Boards of Accountancy. ♦



Providing answers RITF Panel: (L to R) Jack Dailey, Sue Coffey and Randy Ross.

AICPA Clarifies AICPA for Boards

American Institute of Certified Public Accountants Executive Vice President Susan Coffey answered many of the questions raised by 46 Boards of Accountancy in response to a survey conducted by NASBA's Reorganization Impact Task Force (RITF), chaired by John F. Dailey, Jr. (NJ). Ms. Coffey stressed that when someone sees the initials AICPA that refers to the American Institute of Certified Public Accountants, and not to the Association of International Certified Professional Accountants which is a joint undertaking of the AICPA and the Chartered Institute of Management Accountants (CIMA). "CIMA and AICPA are still legal entities with their own boards of directors. The Association houses our shared operations," she explained.

"AICPA never refers to the Association," Ms. Coffey stressed. "We will launch some new branding this summer." The rebranding will be a gradual process that she estimates will be concluded in the fall. Executive Directors Committee Chair Randall Ross (OK) asked: "Who owns the Uniform CPA Examination?" Ms. Coffey assured him it is the American Institute of CPAs that is the owner of the intellectual property which is of concern to the State Boards. This includes the peer review program, technical standards, all Uniform CPA Examination-related activities, professional ethics-related materials, CPE certificates and copyrights.

Mr. Dailey said the RITF was "appreciative of the cooperation from the AICPA." He advised the State Boards to contact NASBA Executive Vice President Colleen Conrad if they have any additional questions to bring to the Institute. ♦

NASBA, NABA and ALPFA

One of the long-term strategies for NASBA's Diversity Committee is forming partnerships with the National Association of Black Accountants (NABA) and the Association of Latino Professionals For America (ALPFA), NASBA Diversity Committee Chair Maria E. Caldwell (FL) told the Regional Meetings. The Committee will also be reaching out to state CPA societies and the major firms to partner on efforts for including more minorities in the profession, and moving them up into its leadership, including NASBA's Board of Directors. One of the Committee's efforts has been the distribution of a survey to determine the current composition of the State Boards.

"We are helping people place ALPFA members," Damaris Garcia-Schneider, ALPFA Board member told the Eastern Regional Meeting. "Maybe bring some of your Board members to our next

conference." She commented, "Diversity is asking someone to the dance: Inclusion is actually asking them to dance."

There is a need to develop an interest in what the opportunities are for CPAs, Jose Campos (CA) stated at the Western Regional. He suggested that more needs to be generally known about the role of the State Board in order to get Latinos involved.

"As a profession, we have to change the way we market," NABA Secretary Ryan Galloway told the Western Regional. NABA is conducting an Accounting Careers Awareness Program. NABA Chairman Steven Harris, at the Eastern Regional, pointed out, "The other piece is financial support – paying for that fifth year. We are trying to make sure students don't cheat themselves by not going on for the fifth year." ♦

Expecting Cryptocurrency Issues

While most people think of government-issued money, there are now over 1,000 privately-issued currencies in the United States, Carol R. Van Cleef, a partner in the D.C. firm of LeClair Ryan, reported to the Regional Meetings. Although few of the meetings' attendees indicated they currently own such currencies, she assured them that the millennial and post-millennial generations are getting into digital currency and it is becoming the way of doing business. The IRS has defined virtual currency as "a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value." Bitcoin was created in 2008 by a person or group named Satoshi Nakamoto that believed "what is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party."

Ms. Van Cleef noted: There is a question of into which regulatory bucket virtual currency falls: Is it a commodity, security or something else? Since 2014 the Securities and Exchange Commission has been studying cryptocurrency and has taken the position that initial digital coin offerings are securities. The SEC has even set up a website to teach people what is fraudulent behavior in this area, Ms. Van Cleef reported. (See <https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-initial-coin-offerings>)

The Commodity Futures Trading Commission in 2015 decided that virtual currencies are properly defined as commodities. According to the CFTC: "There is no inconsistency between the SEC's analysis and the CFTC's determination that virtual currencies are commodities



Carol Van Cleef tells of progress of digital currency and its challenges. and that virtual tokens may be commodities or derivatives contracts depending on the particular facts and circumstances."

For accountants, the use of cryptocurrency raises many issues in the areas of taxation, estate planning and regulation, Ms. Van Cleef pointed out. How should a portfolio of digital currency be valued and when? How should gains be treated for tax purposes? The IRS has said that each transaction in digital currency should be treated separately and capital gains reported. "This means a lot of companies are getting very nasty tax bills," Ms. Van Cleef commented. She noted the SEC has been very critical of lawyers and accountants for not showing enough leadership in the developing cryptocurrency world. The use of virtual currency "is a paradigm shift" and she believes "proper supervision is needed" from dedicated people in both accounting and technology. ♦

MRA Format Demands Details

The mutual recognition agreement with CPA Australia recently approved by the NASBA and AICPA Boards of Directors (see *sbr 5/18*) includes details of courses, examinations and experience to be earned for eligibility for the US CPA, but it also includes a requirement that the holder of the CPA Australia credential be a citizen or legal resident of Australia or New Zealand. NASBA/AICPA International Qualifications Appraisal Board (IQAB) Chair Sharon A. Jensen, speaking at the Western Regional Meeting, and Past IQAB Chair Telford A. Lodden, speaking at the Eastern Regional Meeting, explained this restriction is based on IQAB's evaluation of a fourth E, in addition to the standard education, examination and experience requirements for licensure. That fourth E is environment – cultural, business and economic environment.

CPA Australia has established relationships with both the regulators in Australia and New Zealand that enables holders of its credential to have a clear path to obtaining audit rights in those countries. However, 27 percent of the holders of the CPA Australia credential are offshore and those individuals are not covered by this MRA as similar relationships with regulators have not been established.

For a US CPA to obtain a license to perform statutory audits in Australia or New Zealand, he or she will need to have at least 3,000 hours of audit experience during the last five years, after holding a practice certificate, which can be obtained through CPA Australia.

"In other countries, the accounting profession has a tiered

structure," Ms. Jensen noted. "Audit authority is difficult to obtain and that is the gap that has been clearly shown in the new MRAs," she stated. The recognition as a member of the



Sharon Jensen explains details of CPA Australia MRA.

body can be obtained fairly readily under these agreements, but to have the authority to sign an audit report takes added experience, usually in the other country.

During the past year, besides the CPA Australia agreement, IQAB has renewed the mutual recognition agreements with CPA Canada, Instituto Mexicano de Contadores Públicos and Chartered Accountants of Ireland and developed an agreement with the Institute of Chartered Accountants of Scotland.

Attendees at the Regional Meetings were asked to consider requiring additional experience for a firm doing attest work (see story on page 2). Boards have been requested to discuss the concept and provide input to their Regional Directors. ♦

Ethics Projects in Process

As 43 Boards of Accountancy adopt in whole or in part the AICPA Code of Professional Conduct, upcoming changes and considered changes to the Code are important to Board members, NASBA Ethics Committee Chair Cathy Allen (NY) stated. "We want to ensure our code is a stringent one that will protect the public," she told the Regional Meetings. The Code is determined by the AICPA's Professional Ethics Examination Committee (PEEC), which includes as NASBA representatives on the 20-member PEEC: Ms. Allen, J. Coalter Baker (TX), A. Carlos Barrera (TX), Sharon A. Jensen (MN), and Stephanie M. Saunders (VA).

Ms. Allen told the Regional Meetings that the following PEEC projects are pending:

- Noncompliance with laws and regulations (NOCLAR)
- State and local government affiliates
- Information system services
- Leases standard
- Independence application to agreed upon procedures and selected procedures
- Staff augmentation.

The PEEC is influenced by global standard setters, including the International Ethics Standards Board for Accountants (IESBA), Ms. Allen explained. Topics IESBA is presently considering include: the impact of fees (too high, too low, or for non-attest services), non-assurance services, professional skepticism and the IESBA strategy and work plan 2019-2023. ♦



Cathy Allen points to changes.

Noel Allen Highlights Cases

Several recent significant cases were summarized for the Boards by Noel Allen, NASBA outside legal counsel, at the Regional Meetings. These included:

- *Conley v. Conley* (U.S. Dist. Ct., SD Cal.)- Implication – A State Board is not liable for damages in federal court for continuing to license an incompetent or dishonest CPA.
- *Re Johnson* (NC Supreme Court, May 2018) – Implications – How failed peer review can lead to discipline. The court understood the public protection purpose behind enforcement of engagement contract compliance.
- *Millard v. Accountancy Board of Ohio* (Ct. Appeals 2017) – No matter what you call it, stealing is a dishonest act.
- *Wiltfong v. California State Board of Accountancy* (WD Texas 2018) - Named 130 defendants including AICPA, NASBA, State Boards, universities, major accounting firms and others for violating Sherman Antitrust Act, RICO and various Constitutional provisions and U.S. treaties. Court dismissed on its own motion, citing the plaintiff's "meritless claims."

Mr. Allen also noted that in January 2018 the U.S. Attorney General repealed the prior Department of Justice's Cole Memo, advising "nationwide guidance specific to marijuana enforcement is unnecessary and is rescinded." Eleven State Boards of Accountancy have adopted some form of benign neglect as to taking disciplinary action against CPAs who are operating within the bounds of state law. ♦



Noel Allen underscores pertinent cases.

Sexual Harassment and Boards

Though the Regional Meetings' attendees were pretty much unaware of cases of sexual harassment being brought before their Board of Accountancy, more than half of those responding to the electronic polls taken at those two meetings supported the idea of training for both Board members and staff on how to prevent sexual harassment. Panel sessions discussed what would be considered under Title VII of the Civil Rights Act as sexual harassment, how it would be referenced in the AICPA Professional Code of Conduct and the Uniform Accountancy Act, and what would be specific to state law as far as both discipline, license application and revocation.

The panelists were: Catherine Allen (NY), Mary Ellen Clark (Florida Board attorney), J. Randel Hill (Texas Board attorney) and Nicola Neilon (NV).

"The '#MeToo' movement has created a national dialog and we might receive a complaint from an agency to investigate," Mr. Hill stated. "This is an allegation – not a finding of harassment. How should we address the complaint? There are so many issues involved that there is not always a bright line. Not an easy decision to make."



Western Sexual Harassment Panel: (L to R) J.R. Hill, N. Neilon and C. Allen.

Ms. Neilon commented: "We want you to go back to your state and start asking some questions. The view of the public on sexual harassment is evolving. There is a demand for action by people who have been victimized and we may not have the rules that allow us to take action." ♦

A Glimpse of NASBA's Regional Meetings



Western Regional audience listens to technology pathway ideas.

Ken Bishop welcomes Regional attendees.

Questions about the new pathway were shared.



Eastern Regional Meeting joins the CPT Student Leadership Conference to share dinner and conversations.



Discussing How to Outreach Diversity panelists: (L to R) D. Garcia-Schneider, S. Harris and M. Caldwell.



Benefits of the NASBA CPT Student Centers reviewed.



New Board Member Orientation sessions introduce NASBA to newcomers and bring fresh viewpoints.



Chair Ted Long encourages all to be open-minded.

State Board Report

National Association of State Boards of Accountancy
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Nashville, TN 37219-2417

Start Teaching Accounting Sooner

To encourage students to pursue degrees in accounting, researchers support introducing them to the subject earlier in their academic careers. Speaking at NASBA's June Regional Meetings, the 2017 NASBA Accounting Education Research Grant recipients reported on the information their studies have shown, and all agreed that having students start learning about accounting, perhaps as early as the fourth grade, should be considered. They pointed out recruitment efforts to guide students to STEM (science, technology, engineering and math) are starting back in the primary grades, and accounting should have similar promotion.

Dr. Brandis Phillips of North Carolina A&T State University recommended that to accomplish diversity, all professions need to reach out for recruitment to reflect the changes in the population. He proposed it is not too early to start the process by talking about accounting in grades 4-7. In minority communities, many "have no concept that they could be accountants," Dr. Phillips observed.

Dr. Kimberly Swanson Church, of the University of Missouri – Kansas City, is involved in a project to have the College Board approve an advanced placement course in accounting. However, since AP courses are not available in all schools, she suggested an alternative accounting be offered instead as an honors course. Dr. Church suggested that the State Boards try to "build a bridge with

the department of education" in their state to promote such programs. To change perceptions of the profession, there is a good reason to reach down to the 6th-9th grade level, she advised.

There is a need to establish in all schools the same opportunities for learning about accounting, Dr. Reza Espahbodi of Washburn University agreed. His research predicts that success on the Uniform CPA Examination is more related to socioeconomic status than to ethnic group or gender.

Dr. Espahbodi reported the most striking result from his research "is that controlling for opportunity variables, African -Americans and Hispanics have a much higher probability of passing all four parts of the Uniform CPA Examination, and a lower probability of dropping out after the first attempt" at taking a section. ♦



(L to R) B. Phillips, K. Church and R. Espahbodi.