

State Board *Report*

A Digest of Current Developments Affecting State Accountancy Regulation

Volume XXXVII, Number 9

September 2008

Communications Meeting

The first meeting of the state boards' Communications Officers will be held just prior to the start of the 2008 Annual Meeting in Boston at the Westin Copley Place.

Communications Committee Chair Sally Flowers explained that the meeting is intended to provide for the exchange of information about current state boards' communications efforts, as well as to introduce the new Communications Committee Web page, which will house sample communications documents to assist each board with its own future activities.

Communications officers who will be attending the 101st Annual Meeting are encouraged to participate in this special purpose meeting and to be prepared to share examples of their states' initiatives.

Questions about the meeting should be directed to NASBA Communications Director Thomas Kenny at tkenny@nasba.org. ♦

Plan to Attend the International Forum

There is still time to register for the Forum of International Accountancy Regulators, to be held October 28-30 at the Westin Copley Place in Boston, dovetailing with NASBA's 101st Annual Meeting. Regulators, professionals, academics, all are welcome to attend this conference focusing on common concerns of accounting regulators around the world. Learn about: the European Common Content program; the United Nations Conference on Trade and Development; China's convergence of local standards with International Financial Reporting Standards; and more. Representatives from Bermuda, Canada, China, Hong Kong, Germany, New Zealand and Scotland have already signed up to be there. NASBA will provide complimentary registration for two representatives from each state accountancy board – and the International Regulators Conference Committee looks forward to others attending as well.

The Forum will begin in conjunction with the Annual Meeting, as Public Company Accounting Oversight Board Chairman Mark Olson and International Federation of Accountants (IFAC) President Robert Bunting present a global overview of the current environment and what needs to be done to work together. Then Forum participants will hear from: Dr. Zhou Zhong Hui, chief accountant – China Securities and Regulatory Commission; Aulana L. Peters, member – IFAC Public Interest Oversight Board; Mark Allison, executive director of education – Institute of Chartered Accountants of Scotland; Len Jui, partner – KPMG; M. Zubaidur Rahman, program manager – The World Bank; and speakers more familiar to the NASBA audience, including Linda Biek, Charles Calhoun, David Costello, Marc Harris, Robert Gray and William Treacy.

Breakout sessions will give Forum participants an opportunity to exchange views on: Pathways to a Professional Credential; Regulatory Models; and Continuing Professional Competency. For details about the Forum and the Annual Meeting, see www.nasba.org. Questions about the Forum should be directed to lbiek@nasba.org. ♦

Contents

Communications Meeting	1
Plan to Attend the International Forum	1
SEC Proposes Roadmap to IFRS	1
2008 Brookings Study of E- Government Out ..	2
Appeals Court Supports PCAOB	2
SEC and Australia Enter Into MRA	2
President's Memo	3
Show Me The NASBA	4
CPT Website Enhanced	4

Published by the
National Association of State Boards of Accountancy
Editor-in-Chief: Louise Dratler Haberman
Editor: David A. Costello
Production Editor: Anthony E. Cox
Editorial Assistant: Ann Bell

Tel/615.880.4200
 Fax/615.880.4290
www.nasba.org

SEC Proposes Roadmap to IFRS

The United States needs to support the work of the International Accounting Standards Board and the foundation that oversees it, the International Accounting Standards Committee Foundation, SEC Chairman Christopher Cox stated on August 27 as he announced the release of the SEC's proposal of a "Roadmap" for US participation in the development of International Financial Reporting Standards (IFRS). This Roadmap could lead to the mandatory use of IFRS by US issuers beginning in 2014.

Chairman Cox named five key success factors for IFRS:

1. Standards must be crafted in the interest of investors.
2. The standard-setting process must be transparent.
3. The standard setter must be independent. "That means independent from special pleaders, from the political process, from favored industries or

(Continued on Page 4)

2008 Brookings Study of E- Government Out

Although the latest Brookings Institution study finds considerable progress in federal and state governments' use of technology during the last decade, it still concludes "e-government has fallen short of the potential to transform public-sector operations." Based on observations of an average of 30 websites for each state plus the major federal government agencies' sites, the study was completed during June and July 2008 at Brown University.

Darrell M. West, vice president and director of governance studies at the Brookings Institution and author of the study writes: "Many sites misleadingly claimed to offer online services, when they were in fact only hosting PDFs of forms and documents that needed to be printed, filled out and mailed. This limits the utility of e-government." He explains: "Fully executable online service delivery benefits both government and its constituents. In the long run, such services offer the potential for lower cost of service delivery and make them more widely accessible to the general public." While in 2000 the researchers found 78 percent of the government Websites offered no online services, in 2008 three or more services were being offered online on 67 percent of the government websites.

Seven percent of state and federal websites require user fees to access information and services. Among those cited in the report are: Texas portal (user fees for license renewal); Rhode Island portal and Business Regulation (Online License and

2008 Top Overall State E-Government Ratings

- | | |
|------------------|---------------|
| 1. Delaware | 6. Maine |
| 2. Georgia | 7. Kentucky |
| 3. Florida | 8. Alabama |
| 4. California | 9. Indiana |
| 5. Massachusetts | 10. Tennessee |

2008 Federal Government Web Sites

- | | |
|------------------------------------|----------------------------------|
| 1. National Portal USA.gov | 6. Department of Education |
| 2. Department of Agriculture | 7. Small Business Administration |
| 3. General Services Administration | 8. Library of Congress |
| 4. Postal Service | 9. Department of Treasury |
| 5. Internal Revenue Service | 10. Federal Reserve Board |

Endorsements Renewal fees vary from \$4.00 to \$33.00 depending on the cost of the renewal); and North Carolina portal and Secretary of State (collects \$1 a page for copying or comparing a copy to the original; and \$15 for the certificate, plus a charge of \$10 for an electronic certificate).

The 17-page "State and Federal Electronic Government in the United States, 2008" study can be found on www.brookings.edu. ♦

Appeals Court Supports PCAOB

A suit challenging the validity of the Public Company Accounting Oversight Board (PCAOB) was once more defeated when a two-to-one vote of the US Court of Appeals for the District of Columbia Circuit (argued on April 15 and decided on August 22) affirmed the lower court's decision in *Free Enterprise Fund and Beckstead and Watts, LLP v. PCAOB*, No. 07-5127 (see *sbr* 4/07). However, there is no guarantee the case is settled as Circuit Judge Brett M. Kavanaugh's lengthy dissent could prompt the US Supreme Court to consider the matter or the Free Enterprise Fund could request a rehearing with all nine Appeals Court judges present.

The suit alleged that the Sarbanes-Oxley Act of 2002 violated the appointments clause of the Constitution and separation of powers because it does not permit adequate Presidential control over the PCAOB. Circuit Judges Judith W. Rogers and Janice Rogers Brown did not agree with the appellants. The judges pointed out that the Securities and Exchange Commission is empowered to set rules and procedures for the PCAOB. The judges concluded that because the PCAOB is subject to the direction and supervision of the SEC, and the President has the power to remove the SEC's Commissioners, he has sufficient power to influence the PCAOB.

Judge Kavanaugh argued that Congress could fix the flaws by making the PCAOB members subject to Presidential appointment or "giving the SEC authority to direct and supervise all Board actions and to fire Board members at will." ♦

SEC and Australia Enter Into MRA

The US Securities and Exchange Commission (SEC) and the Australian Securities and Investments Commission (ASIC) on August 25 entered into a mutual recognition arrangement (MRA) that provides a framework for the SEC, the Australian government and the ASIC to consider regulatory exemptions that would permit US and eligible Australian stock exchanges and broker-dealers to operate in both countries and be regulated by only one. Key to the new arrangement are an Enhanced Enforcement Memorandum of Understanding (MOU) and a new Supervisory MOU which permit greater regulatory and enforcement cooperation between the SEC and the ASIC.

The MRA initially is limited to Australian markets seeking to do business with US investors through US broker-dealers and US markets seeking to do business with Australian investors through Australian broker-dealers. Among its provisions is: "An Australian market seeking to do business with US investors will provide US investors, through US broker-dealers, a risk disclosure statement designed to make such US investors aware that they are conducting transactions with an Australian entity not subject to direct SEC oversight." A similar disclosure to Australian investors would be required from a US market. Both the SEC and ASIC will retain jurisdiction to pursue violations of their respective anti-fraud laws and regulations.

The Consumer Federation of America called on the SEC to conduct a cost-benefit analysis and develop clear standards for determining whether a country is MRA eligible. ♦

President's Memo

Identity Theft

You may remember the Citibank television commercial with Thelma and Norma sipping coffee and talking about their latest purchase with stolen credit cards. "Spending limits, who cares? For them ain't our credit cards...the motorcycles was expensive and fast...and loud...and sounds good 'cause they're free."

Identity theft and fraud are terms used to refer to all types of crime in which someone wrongfully obtains and uses another person's personal data (e.g., Social Security numbers, credit card numbers, bank account information) in some way that involves fraud or deception, typically for economic gain. It is estimated by various sources that over 10 million people a year in the U.S. are victims of identity theft and that the cost of such theft may exceed \$70 billion. Federal and state governments have enacted legislation to compel institutions, government agencies, companies and entities handling private and confidential personal data to comply with stringent controls, protocols and standards.

There's a different type of identity theft which doesn't involve confidential information and doesn't appear to impose cost or harm to the individual. The theft of which I write is the gradual erosion or assumption of states' rights and authority by national, international or professional bodies. I have for some time reminded our boards that the main threat to state regulation of accountancy is irrelevance. Irrelevance can occur through incompetence, unfair and overly restrictive regulation, or by ceding to other groups that which under the Tenth Amendment to the U. S. Constitution is reserved to the states. I am confident that boards are composed of competent members and I am persuaded that boards are diligent in pursuit of fair legislation and equitable enforcement of their rules and regulations. It is the third cause of irrelevance — ceding state regulation and authority to other groups — which I feel portends the greatest danger to state boards: having their identities supplanted.

I'll give one example of the insidious nature of the identity of state boards being taken by others. Heard of International Financial Reporting Standards (IFRS)? My purpose is not to debate IFRS for I, as many of you, believe the time has come for serious consideration, discussion and debate about IFRS. IFRS has, for the most part, only been discussed in relation to publicly held companies. Currently, of course, in the U.S. Generally Accepted Accounting Principles (GAAP) are used for public and private reporting entities.

The principal organizations promoting the acceptance of IFRS in the U.S. include: American Institute of CPAs (AICPA), Financial Accounting Standards Board (FASB), International Federation of Accountants (IFAC), International Organization of Securities Commissions (IOSCO), International Accounting Standards Board (IASB), Securities and Exchange Commission (SEC). Who's missing? We are!

How many state boards have been invited to meetings and discussions about IFRS that began in 2001 and have been held with increasing frequency in every year since? I don't know of any.

How many meetings has NASBA been invited to attend to represent state boards in discussing IFRS and how they will be reconciled with GAAP and state law? That one's easy also — only one, a roundtable held by the FASB in June 2008!

Look at the IFAC Code of Ethics that defines a "professional accountant" as "a member of an IFAC member body." So even if you belong to your state CPA society, if you are not a member of the AICPA, then you are not a professional accountant according to IFAC. International standard setting requires state boards to be involved or their licenses will become meaningless.

Irrelevance can result from our simply doing nothing about an issue, which the above organizations I'm sure think they have well in hand. While I have high respect for each of the organizations cited above, I am unwilling to cede — give up the state boards' identity — to any of them. It's time that the standard setters engage the boards and NASBA in meaningful conversation if they are serious about their timelines culminating in 2013 with a mandate that large U.S. public companies convert their financials to IFRS.

An individual's identity is a right and is protected under the law. The authority of state boards of accountancy is a right and is similarly protected. We applaud the efforts of national, international and professional bodies to advance financial reporting through high quality standards accepted globally. However, overlooking the largest accountancy regulator in the world — state boards of accountancy — is not an approach that bodes well for the effective implementation of IFRS throughout the states and jurisdictions. Our identity, for the sake of the public, must and will be protected.

Ad astra, Per aspera



Costello



— David A. Costello, CPA
President and CEO

SEC Proposes Roadmap to IFRS

(Continued from Page 1)

industry players, and from national or regional biases,” Mr. Cox explained.

4. The standard setter must be accountable, updating investors and stakeholders in a timely way.
5. All stakeholders must participate in the standard-setting process in order to ensure the continued success of IFRS.

He drew attention to the International Accounting Standards Committee Foundation that has added as part of its 2008 revision to its constitution a new monitoring group “to ensure the accountability of the global standard setter to national authorities charged with protecting the capital markets and the public interest.”

IFRS reporting for all domestic listed companies is required in

about 85 countries, which account for approximately 35 percent of the global market capitalization as of the end of July 2008, Mr. Cox reported, with the United States accounting for 28 percent. Additional countries have decided to adopt IFRS by 2011, he noted. He also pointed out that two-thirds of US investors currently own securities of foreign companies.

“The proposed Roadmap is cautious and careful,” Chairman Cox stated. “It is a proposed multi-year plan that sets forth both the basis for considering the use of IFRS by US issuers, and several milestones which if achieved could lead to the use of IFRS by US issuers.”

The Roadmap will be posted on www.sec.gov in the “Regulatory Actions – Proposed Rules” section with a comment deadline 60 days after the document’s appearance in the *Federal Register*. ♦

Show Me The NASBA

NASBA’s Human Resources and Communications Departments have been on a joint mission to fine-tune the art of communication at NASBA. The means and the methods used often involve creative, competitive internal projects that foster and enhance good old fashioned teamwork and communication among different departments. “Show Me The NASBA” is underway now – a venture in which each NASBA department has developed a short video marketing the department’s function and/or services with a view towards being informative to internal and external audiences.

Previous staff competitions have resulted in the identification of new NASBA services, logos, slogans and meetings’ themes.

“The more we learn, the more we know, the better we communicate,” explained NASBA Chief People Officer Angel Lunn. NASBA recently won a “Best Places To Work in Nashville”

award from *Business TN* for the third consecutive year, and ranked second on the “Best Employers in Tennessee” listing.” ♦

CPT Website Enhanced

It’s now easier to learn about the latest activities of the NASBA Center for the Public Trust (CPT) by using its newly redesigned website, www.centerforthepublictrust.org. The site now features: archived issues of its newsletter *Ethics Matters*; video clips of past CPT events and speakers as well as photo albums; on-line registration forms; current “Good News” articles; and information about CPT Board Members.

Within the next few weeks, www.centerforthepublictrust.org will also include an ethics question and answer blog and an on-line store. ♦

State Board Report

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