NASBA
State Board Report
A Digest of Current Developments Affecting State Accountancy Regulation
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2010 FIAR in Spain

NASBA's Global Strategies Committee is currently making plans for the next Forum of International Accounting Regulators (FIAR) to be held September 29 - October 1, 2010 in Madrid, Spain. Among the topics to be covered from an international perspective will be professional regulation, corporate governance, liability, global credentials, oversight of standard setters and audit quality. Linda Biek, NASBA's Director of Governmental, International and Professional Relations reported that the two previous FIAR, held in 2008 in Boston and in 2009 in San Francisco, drew some 30 representatives from outside the United States. To establish the conference as a truly international event, a European site was selected by the Global Strategies Committee for this year's presentation, she explained.

Ms. Biek, President David Costello and NASBA/AICPA International Qualifications Appraisal Board (IQAB) Chair William Treacy travelled to China in May to speak with representatives of the Chinese Institute of CPAs and to plan for future symposia on professional regulation which will be held in China. Negotiations are ongoing between IQAB and the Hong Kong Institute of CPAs for the completion of a mutual recognition agreement. ♦

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Selection Committee Begins Work

The Selection Advisory Committee (SAC), which is finalizing its procedures for recommending the successor to retiring NASBA President and CEO David A. Costello, held its inaugural meeting in Chicago on May 14. Members of the Committee will be speaking with each NASBA Region at the Eastern and Western Regional Meetings, gathering from representatives of the member Boards criteria to be considered in the screening process for the post. Committee Chair John Peace said the SAC plans to advertise for the post in major publications nationwide in July, with initial interviews to be held in September.

Members of the SAC include: John Peace (Chair) – Arkansas, Andy DuBoff – New Jersey, Ellis Dunkum – Virginia, Jimmy Burkes – Mississippi, Charles Clark – Idaho, Ted Long – Ohio, Diane Rubin – California, Kent Smoll – Kansas, Laurie Tish – Washington, and Bill Treacy (ED) – Texas. ♦

House Subcommittee Hears Accounting Issues

Since accounting and auditing issues "have surfaced more than once" since the start of the financial crisis, Representative Paul E. Kanjorski (D-PA), chairman of the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, on May 21 held a hearing on "Accounting and Auditing Standards: Pending Proposals and Emerging Issues." Financial Accounting Standards Board Chairman Robert H. Herz told the Subcommittee about concerns the small business community has voiced to the FASB, which include: the potential move to IFRS and the uncertainty that would create for private companies; the use of IFRS for Small and Medium-Sized Entities by US private companies; other countries' use of IFRS for public but not private companies; and the cost/benefit to private companies of certain GAAP requirements.

"In response to hearing these concerns from private company constituents during the Trustees' listening tour last summer, as well as receiving input from the Private Company Financial Reporting Committee, in December 2009 the FAF created the 'Blue Ribbon Panel' on Standard-Setting for Private Companies sponsored jointly by the AICPA and the National Association of State Boards of Accountancy," Chairman Herz stated. "The Panel, which includes a cross-section of private company financial reporting constituencies, including lenders, investors and owners, as well as preparers and auditors, will examine these matters and issue its report with recommendations to the trustees in early 2011."

The FASB has also appointed members to its new Not-for-Profit Advisory Committee, which will hold its first meeting in September, Chairman Herz noted. This group will also consider issues that may arise should the US move to IFRS, which do not cover not-for-profit entities.

Representative Kanjorski pointed out that as the Wall Street reform bill made its way through the House, provisions were added that would call for an annual accounting transparency hearing, create a Financial Reporting Forum for regulators, and exempt small public companies from the Sarbanes-Oxley Act's requirements for external audits of internal controls. ♦

NASBA Meets with CPE Sponsors

Representatives from approximately 30 members of the NASBA CPE Sponsor Registry met with NASBA's Continuing Professional Education Advisory Committee and NASBA staff on May 24 in Nashville. The half-day meeting was designed to gather input about ways in which to make the Registry's Standards and requirements more effective and efficient. The meeting resulted in NASBA making plans to revisit the CPE Standards and interpretations.

Theodore Long, chairman of the NASBA CPE Advisory Committee, said he believes the CPE Standards need to be updated: "Technology has impacted how CPE is being developed and distributed. We are forming a NASBA task force to include representatives of CPE sponsors, Boards of Accountancy, educators and CPE Advisory Committee members. The task force's purpose will be to study the Standards and recommend changes if needed."

The NASBA meeting with sponsors was very helpful, NASBA Compliance Services Director Yordanos Dumez observed. "We wanted to provide a forum for members of the CPE Sponsor Registry and QAS [Quality Assurance Service] to tell us how our policies are working with their operations. Several years ago we began circulating our 'Frequently Asked Questions' to offer guidance to sponsors.

"The May meeting was an opportunity to learn how well that guidance has worked – and we are grateful to all those who were able to attend," she said. ♦

Panelists Ponder Users' Needs

Financial report users, preparers, standard setters and others spoke out at the May 14 meeting of the AICPA/FAF/NASBA Blue Ribbon Panel (BRP) on Standard-Setting for Private Companies. Financial Accounting Foundation President Terri Polley observed, "I think this group was formed to explore the needs of users – and what I hear is that the users cope." As this second meeting of the BRP was concluding (see *sbr* 5/10), she commented, "The noise comes from the preparers." She called for a two-page explanation of the reasons why there should be alternative standards for private companies. Ms. Polley also noted that as the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) "have their convergence agenda in flux right now," drawing the FASB into the BRP's discussions would be appropriate. BRP Chair Rick Anderson agreed that it is necessary to articulate the problem that needs to be solved at the outset of the Panel's discussions.

The Panel heard from Tricia O'Malley, chair of the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants, who explained that through a four – year process Canada had decided to develop different standards for different types of companies. "There was a strong consensus that what was applicable to public companies was just not working for private," she reported. "We recognized that the cost of getting the information for these entities outweighed the benefit." Starting with existing Canadian GAAP, the AcSB made changes for private companies. They worked with an academic advisory council as well as a user advisory council, as educators feared the problems of teaching several sets of standards. Ms. O'Malley said the resulting private enterprise GAAP is not intended to be an interim solution, "but it will migrate in the direction of IFRS [International Financial Reporting Standards] over time."

Ian Mackintosh, chair of the United Kingdom's Accounting Standards Board, said they have not yet finalized their situation and will probably not be applying IFRS for small to medium-sized entities (SME) before 2014. UK listed companies must use IFRS, while others can use them or UK Financial Reporting Standards, or Financial Reporting Standards for Smaller Entities (FRSSE), if they have below 50 employees. "We have 5-6 areas where IFRS SME would not fit for the UK. We will have to change them to meet with our directions. Germany and France will have their own GAAP as they have their tax considerations and see no reason to change," Mr. Mackintosh observed. "Everyone has their little favorite part of the GAAP that they would like to keep. We will be looking at where we have to change IFRS," he stated.

"Every jurisdiction can decide for itself to comply with IFRS SME," Tom Jones, former member and vice chairman of the International Accounting Standards Board, told the BRP meeting. While IFRS cover thousands of pages, the SME only cover 230 and "are very easy to read in one evening," he stated. Mr. Jones pointed out there are "huge savings" in countries moving to uniform standards. During his time on the IASB, he learned three things: "1- No one should be allowed to write accounting standards who wants to. 2- In most cases it doesn't matter which way you go – as long as you go the same way. 3- If you want to write accounting standards and you want a friend – get a dog." ♦

IOSCO Urges Information Sharing

Enhanced supervisory cooperation and information sharing among regulators are called for in "Principles Regarding Cross-Border Supervisory Cooperation," the final report of the International Organization of Securities Commissions' (IOSCO) Technical Committee, released in May (see www.iosco.org). The report recognizes auditors "play an important function in confirming – or debunking – the reputation that an issuer seeks to build about itself."

As global companies have subsidiaries operating in more

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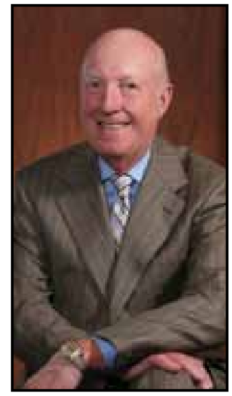
The "E" On The End



David A. Costello, CPA

Some remember June 15 as the anniversary of Vice President Dan Quayle's famously misspelled potato. The unforgettable event happened at a grade school in New Jersey where the Bush-Quayle campaign continued its re-election bid. A spelling bee had been arranged by the school for children participating in a drug prevention program, who had been bussed in from across the city. Vice President Quayle, reading from index cards prepared for him, asked sixth-grader William Figueroa to spell "potato." The student went to the chalkboard and wrote it correctly. Mr. Quayle glanced down at the index card, which had the word misspelled, and whispered to the young boy: "You're close, but you left a little something off. The 'e' on the end." Although he felt confident that he had it right, the 12-year old wanted to be polite, so he placed an "e" on the end of "potato."

The potato(e) story quickly became a defining moment for Dan Quayle for both his friends, who saw it as funny and cute, and for his opponents, who would opine that someone who couldn't spell "potato" shouldn't be a heartbeat away from the presidency.

Whether the Vice President should be able to spell "potato" is open to debate, but it does illustrate the importance and significance that can be attached to words—how we use them and even how we spell them.

The Uniform Accountancy Act Committee (a joint committee of the American Institute of CPAs and NASBA) appointed a task force to make specific statute and rule proposals that address the issue of misleading firm names, including the challenge of defining networks and network firms. The Task Force is carefully considering the issue as presented in last year's joint white paper and will make recommendations to the joint UAA Committee for discussion and approval. We know that the firm name issue—what title a CPA firm can assume—is critically important to State Boards, especially in this new age of mobility. States are trying to harmonize their laws and rules to both provide fair treatment to the profession's marketing efforts and, at the same time, ensure that their citizens are not mislead or confused by inappropriate names. This is not a new issue, but as the AICPA's Professional Ethics Executive Committee is releasing its Interpretation 101-17 of "networks" in the July issue of the *Journal of Accountancy,* we do have a renewed emphasis on "getting it right" so that all 55 jurisdictions are addressing a difficult challenge consistently and reasonably.

You may wonder what is so challenging about a name. A couple of examples may suffice:

Can a network of firms include only one CPA firm and still be called a network? The answer seems obvious to me, but there is some discussion that perhaps a single firm could in fact represent itself as a network. The "potato e" does make a difference.

Should a firm under substantial equivalency privileges be able to use its home state licensed name in any jurisdiction? What if that name is not allowed in the state where the firm is seeking to practice? There is some difference of opinion.

Should a network firm be allowed to use only a brand name? The answer might be, "No." But there are different opinions about that thorny issue.

What examples of types of misleading or permissible firm names need to be included in a state's statute or rules?

Must firms have a binding agreement to cooperate to be considered a network?

My point is not to debate in this short article what should or should not be in the state statutes or rules regarding firm names and the prohibitions on misleading names. My point simply is that names make a critical difference to a trusting public. It really is the "e on the end" that can be the difference in knowing whether one is engaging a CPA firm, a network with some CPA firms, a firm with worldwide offices, a firm with only one CPA or many, or any other number of multifaceted associations of firms. The public needs to be clear on who is being engaged and whom to hold accountable and liable for the practice of public accountancy. And the profession needs to have guidance on what would be an acceptable name throughout the United States.

We still remember June 15, 1992 for one event—the day Dan Quayle got it wrong. When the UAA completes its work on misleading firm names and the AICPA and NASBA boards of directors approve the revised clarity of the language, I want to proudly state that we recognized the importance of the "e on the end" and got it right.

Ad astra
Per aspera

— *David A. Costello, CPA*
President and CEO

PCAOB Lists Non-U.S. Companies With Uninspected Auditors

As a transparency measure, a list of non-U.S. issuers whose securities trade in U.S. markets but whose auditors are uninspected by the Public Company Accounting Oversight Board has been posted on http://pcaobus.org, PCAOB Acting Chairman Daniel L. Goelzer told the House Financial Services Committee, Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises on May 21. The list includes companies well known in the U.S., such as Nokia, Technicolor and Royal Bank of Scotland. Although as of May the PCAOB had inspected 173 non-U.S. firms in 33 non-U.S. jurisdictions, the PCAOB is now unable to conduct inspections in the 30 European countries that are required to follow the European Union's Directive on Statutory Auditors, Switzerland, Hong Kong and China, Mr. Goelzer noted.

In February 2009 the EU barred joint inspections by the PCAOB with the EU's audit oversight bodies pending resolution of the PCAOB's restriction on information sharing with such non-U.S. authorities. There are 73 firms in 20 EU countries that are subject to PCAOB inspection because they audit, or play a substantial role in auditing the financial statements of a U.S. public company's foreign operations or a foreign private issuer's listed on a U.S. exchange. Mr. Goelzer told the House Subcommittee: "Section 7602 of the Reform Act, as passed by the House of Representatives last year, would correct this problem by permitting the PCAOB to share information with non-U.S. audit oversight bodies. A similar provision has been included in the Restoring American Financial Stability Act of 2010 in the U.S. Senate. Final enactment of the information sharing provisions would enable the Board to proceed with meaningful discussions with its EU counterparts."

The PCAOB has also issued new staff guidance related to the registration process for applicants from non-U.S. jurisdictions. The non-U.S. firms will be asked about public company audits in which they have played or expect to play a role and also to identify other PCAOB-registered firms in whose audits the applicant expects to play a role.

In his report to the House Subcommittee, Acting Chairman Goelzer summarized the projects in which the PCAOB is engaged, among those is one on cross-border audits of multi-national companies. He explained: "The Board is considering revising the PCAOB's interim standard on the principal, or signing, auditor's use of other audit firms in conducting audits of financial statements of multi-national companies. In addition, because most such audits are performed by firms that participate in a network of affiliates and hold themselves out as offering a common brand, the PCAOB is evaluating the adequacy of its quality control standards and considering whether changes may be appropriate to enhance networked firms' controls over interaction with and use of other firms in their networks." ♦

IOSCO Urges Information Sharing

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than one jurisdiction which require separate auditors to audit the financial statements of related entities, the report states: "The result is that the auditor for the overall organization must review and opine on the accuracy of the organization's consolidated financial statements when it itself did not conduct an audit of all of the organization's components. Under such a situation, problems can arise if an audit failure occurs at the local level and the parent auditor is unaware of the failure."

The report includes a sample memorandum of understanding for securities regulators to enable them to more effectively oversee financial services providers that operate in multiple jurisdictions. ♦

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