

2nd NASBA International Forum

NASBA will be presenting its second Forum of International Accountancy Regulators (FIAR) on September 10-11, 2009 in San Francisco. To assist international regulators to participate, NASBA is offering complimentary registration for two representatives per country.

“The forum is being presented to encourage accountancy regulators from around the world to work together on common issues, explore similarities and differences in regulatory models, and enhance protection of the global public interest,” NASBA Director of International Relations Linda Biek explained.

Presentations will cover: the benefits of Free Trade Agreements; independent audit oversight; legal challenges; continuing competency models; and emerging issues. In addition, there will be breakout sessions on: mutual recognition; liability exposure; continuing competency; and financial statement users’ needs.

The program was developed by International Regulators Conference Committee: Michael Weatherwax – Chair; Charles Calhoun, III; John Carden; Robert Gray; Gaylen Hansen; and William Treacy. ♦

FCAG Sees Future of IFRS Imperiled

At the present time in the United States, the appetite for convergence of accounting standards, as opposed to the improvement of accounting standards, is not there, Financial Accounting Standards Board (FASB) Chairman Robert Herz advised a meeting of the Financial Crisis Advisory Group (FCAG) on May 22 in London. He told the FCAG: “I want to be as positive, constructive and politic as I can be. We desire to get a common, good answer with the IASB [International Accounting Standards Board]. We will make that effort to do so, but some of the direction they are currently headed in is very, very preliminarily not to the liking or acceptance of our board. In particular, one of our principles is you can’t significantly widen the cost bucket. We don’t think that is a step forward in financial reporting.”

The IASB is currently considering how to improve accounting for financial instruments. They are working on collapsing their four classifications of financial instruments into two, one subject to fair value and the other to amortized cost, IASB Chair David Tweedie explained. Efforts will be made to bring the IASB and FASB models together and there will be an exposure draft period. Chair Tweedie said the IASB hopes to have a standard by the end of 2009.

FCAG members all agreed that accounting standards were not viewed as the cause of the global financial crisis, but some parties are viewing them as the potential cure. Harvey Goldschmid, FCAG co-chair, observed that the pressure on the FASB and IASB is “a threat to the very existence of international accounting standards.” He warned that the loss of international standards would result in going back to reconciliation. Nelson Carvalho, IASB SAC chairman from Brazil, agreed that going back to the reconciliation of over 200 national accounting standards would be a tragedy. He maintained that the IASB and FASB are not in need of advice from politicians, and asked that they be kept away from the standard-setters.

Don Nicolaisen, FCAG member and former Chief Accountant of the US Securities and Exchange Commission, stated: “Accounting standards as written are always going to be refined; we don’t get them perfect. But what we do have is an extremely cynical investing public, less trustful of regulators, government and business....To have them not trust accounting standards...would put us in the dilemma of fueling that cynicism.” Standard setters cannot accept compromises that are unrealistic economically, Mr. Nicolaisen said, but it makes sense for them to make changes that “deal with issues that arise because we know more today than a year ago.”

The FCAG plans to release a report in July, FCAG Chairman Goldschmid told the meeting.

The International Federation of Accountants (IFAC) has called a meeting July 23-24 in London to obtain the perspectives of accountancy institutes on how the profession can best contribute to strengthening the global financial system as discussed at the meeting of the G-20. NASBA representatives have been invited to participate in the IFAC G-20 Accountancy Summit. ♦

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IRS Considering Steps to Regulate Tax Preparers

Internal Revenue Service Commissioner Doug Shulman announced to the House Committee on Ways and Means that by the end of 2009 he will propose a comprehensive set of recommendations to help the IRS better leverage the tax return preparer community. These recommendations will be aimed at “increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax preparers.”

The IRS expects to submit recommendations to the Treasury Secretary and the President that could contain: a new model for the regulation of tax preparers; service and outreach for return preparers; education and training of return preparers; and enforcement related to return preparer misconduct. To begin the process, the IRS is going to engage in fact finding that will include receiving input for its constituent community. According to the IRS’s statement, that community includes “those that are licensed by state and federal authorities – such as enrolled agents, lawyers and accountants – as well as unlicensed tax preparers and software vendors.” Input from consumer groups and taxpayers will also be obtained.

A number of open meetings with constituent groups will be

held by the IRS in Washington, DC, and around the country. Schedules and agenda for the public meetings will be posted on the “Tax Professionals” page of www.irs.gov.

“We must ensure that all preparers are ethical, provide good service and are qualified,” Commissioner Shulman stated. “At the end of the day, tax preparers and the associated industry must be part of our overall game plan to strengthen the integrity of the tax system.” ♦

Changes at the PCAOB

Public Company Accounting Oversight Board Chair Mark W. Olson has announced his resignation effective July 31, 2009. Moving into the post of Chief Auditor at the PCAOB is Martin F. Baumann, formerly the PCAOB’s Director of the Office of Research and Analysis. Mr. Baumann had a 33-year career with PricewaterhouseCoopers, where he served as Deputy Chairman of the World Financial Services Practice, Global Banking Leader, and partner-in-charge of the audits of some of the firm’s largest clients. ♦

ERB Okays NASBA Exam Costs

Based on the Examination Review Board’s review and evaluation, it has concluded that boards of accountancy may rely on the 2008 Uniform CPA Examination and the International Qualifications Examination in carrying out their licensing responsibilities, states the report being distributed at the June 2009 NASBA Regional Meetings. In addition, the ERB has distributed a letter stating the Board has performed an analysis of the accumulated costs associated with the computer-based test (CBT) and has not found any material exceptions to the NASBA CBT operational expenses for the fiscal year ended July 31, 2008. The ERB’s analysis of projected future CBT operational expenses did not detect any unreasonable assumptions in such projections.

The Examination Review Board’s members are: Donald E. Howard – Chair, Charles L. Talbert, III, - Vice Chair, Barton W. Baldwin – Immediate Past Chair, Asa L. Hord, O. Charlie Chewning, Jr., Wesley P. Johnson, David L. King, Will J. Pugh, Donald R. Roland, David A. Vaudt, Sandra R. Wilson and Robert G. Zunich. ERB’s consultants are Steven M. Downing and Michael W. Harnish, and their staff liaisons are Lisa Axisa and Toerien DeWit. ♦

Mobility Info on NASBA.org

Do you want to find out what is needed to practice in another state or do you want to track mobility legislation in a particular state? Answers to mobility questions are available by just going to nasba.org and clicking on the “mobility” tab at the bottom of the page. Simply enter the name of the state for which you want practice privilege information and the Accountancy Licensing Library will give you the mobility information without charge. It’s quick, easy and up-to-date. The states have worked hard to achieve mobility – here’s a simple way to find out how to use it. ♦

OK Spells Out Accountant-Client Privilege

When Oklahoma took steps to clarify disclosure of confidential communications in an attorney-client relationship, the state also spelled out accountant-client privilege and the circumstances under which it would and would not apply. Oklahoma’s HB 1597 was signed by Governor Brad Henry on May 22, 2009.

The legislation says, in part: “A client has a privilege to refuse to disclose, and to prevent any other person or entity from disclosing, the contents of confidential communications with an accountant when the other person or entity learned of the communications because the communications were made in the rendition of accounting services to the client. This privilege includes other confidential information obtained by the accountant from the client for the purpose of rendering accounting advice.”

The privilege can be claimed by: the client; the guardian or conservator of the client; the personal representative of a deceased client; the successor, trustee or similar representative of a corporation association or other organization; or by the person who was the accountant at the time of the communication on behalf of the client. However, there is no accountant-client privilege when the services were sought or obtained to aid anyone to commit a crime, or in other circumstances as detailed in a new section of law to be codified in the Oklahoma Statutes as Section 2502.1 of Title 12.

Ohio’s Senate Bill 80, which would amend Section 2317.02 of the Revised Code to create an accountant-client testimonial privilege, was reported out of committee on May 7, 2009. The bill is being sponsored by 13 of the Ohio Senate’s 33 members. The Bill still has to go to the House. Included in the legislation is the specific provision that the accountant-client testimonial privilege “is not affected by an accountant’s participation in a peer review.” ♦

Keeping the Public Trust - Slacktivists Need Not Apply

Sometime in 1995 two students at the University of Northern Colorado circulated by e-mail a petition to rally people to protest government cutbacks in the Public Broadcasting System, National Public Radio and arts projects. To ensure its far reach, the message included the words: "Forward this to everyone you know." This outreach precipitated a new term, "slacktivism," a condensed version of "slacker activism."

Slacktivism sit and peck out e-mails urging others to take action, but the authors rarely get their own hands dirty. You've read slacktivists' bumper stickers, the ones that urge you to "Honk if you _____ (fill in the blank)." E-mails that warn you to pass the message on or some catastrophe will happen in your life are borne out of slacktivism. In short, slacktivism is the desire to achieve something good without exerting much effort.

I was reminded of this term recently at NASBA's Western Regional Meeting in Oklahoma City. As suggested by Southwest Regional Director Carlos Johnson, at our luncheon event, Gene Rainbolt, Chairman of BancFirst, spoke on the subject of "Rebuilding the Public Trust."

Mr. Rainbolt offered some background as to what created public distrust of institutions, government, regulators and professionals. But his commentary on what it will take to rebuild the public trust is what gripped my attention. His seven points calling us to action — not slacktivism — are compelling:

1. Accountants and accounting firms must conduct themselves as Caesar's wife—the threat of losing an account must never temper judgment of accountants. Nor should disciplining a member, individually or collectively ever impede your actions.
2. Sponsor the establishment of global accounting standards and then police them diligently, blowing the whistle without hesitation.
3. Participate in the building of a regulatory framework that would monitor the prudent operations of all financial institutions, assuring equity capital ratios that are logical and liquidity that is rational.
4. If investors are to rely, even partially, on rating agencies, the assumptions underlying their algorithms must be tested before, not after, failure.
5. Intermediaries must consider the implications of their product offerings. There are serious questions about the misleading nature of "teaser rates" to attract borrowers or depositors. There must be such a rule as "doing what is fair and right."
6. Compensation based on short-term performance is, literally, short-sighted and very prone to manipulation.
7. And as to education what better group is there than accountants to:
 - a. Insist business schools, and especially accounting departments, require significant courses emphasizing the fundamental importance of transparency, ethics and analysis.
 - b. Hold routine continuing education courses for practicing accountants emphasizing the same subjects.
 - c. Hold public forums helping the public better understand risk, the concept of risk-reward and the dangers of excessive leverage.

It is time for us on state boards of accountancy and in NASBA to refocus on our strengths, to remind ourselves of our commitment to the public trust, and to display positively, proactively and powerfully the regulatory mandate to serve and protect the public interest.

We have no room, no place and no time for slacktivists. Mere words, bumper stickers and catchy slogans won't get the job done. Rebuilding and keeping the public trust is a continuing charge for the profession and regulators, and it's not a sometime thing; It's an all the time thing.

*Ad astra,
Per aspera*



David A. Costello, CPA

A handwritten signature in black ink, appearing to read "David A. Costello".

— David A. Costello, CPA
President and CEO

MN Court Upholds Expert's Immunity

The Minnesota Supreme Court has held that expert witnesses appointed under Rule 706 of the Minnesota Rules of Evidence are entitled to immunity from suit for acts performed pursuant to the appointment (A07-165). Catherine F. Peterka had alleged breach of contract and charged professional malpractice by Stephen G. Dennis, a CPA whom the court had appointed to be the neutral evaluator of the business assets Ms. Peterka had held with her former husband.

The evaluation was part of divorce proceedings that began in April 1996 and were concluded in March 1998. On May 10, 2004 Ms. Peterka filed suit against Mr. Dennis saying that he and his firm had breached their contract with her by failing to provide

accurate accounting and appraisal services and had committed professional malpractice in the valuation.

She charged that the jointly owned businesses should have been valued using the fair market value for their inventory, rather than the book value. Ms. Peterka claimed that, as a result, her share of the value of the two businesses was undervalued by \$746,672.00.

The Minnesota Supreme Court held: "Because Dennis is immune from suit and the contested valuation falls within the scope of his immunity, we do not consider whether Dennis' valuation method was in error." In addition, the Court held that because Mr. Dennis was entitled to immunity, so was his firm. ♦

ED on Compilation and Review Standards Released

An exposure draft that would affect the interplay between the AICPA's standards for compilation and review engagements and its independence rules has been released by the Accounting and Review Services Committee (ARSC). The draft covers three proposed standards: Framework and Objectives for Performing and Reporting on Compilation and Review Engagements; Compilation for Financial Statements; and Review of Financial Statements. The comment deadline is July 31 and the standards would be effective for compilations and reviews of statements for periods beginning on or after December 15, 2010.

The AICPA's Private Company Practice Section's Reliability Task Force had recommended that ARSC consider revising its standards for situations in which an accountant's independence is impaired in connection with the performance of non-attest services related to the design or operation of an aspect of internal control over financial reporting. The standards changes, the

ARSC believes, will respond to the concerns of smaller business owners, users of small business financial statements and CPAs that serve smaller entities. In addition, the proposed standards would harmonize the AICPA's review standards with the International Auditing and Assurance Board's review standards ISRE No. 2400.

Among the proposed changes in the exposure draft are: The introduction of the terms "moderate assurance," "review evidence" and "review risk" to harmonize with international review standards; the ability for an accountant to include a general description in his compilation report regarding the reasons for an independence impairment; and reporting requirements for instances in which the accountant's independence is impaired due to the performance of non-attest services.

NASBA's Regulatory Response Committee is developing a comment letter on the exposure draft. Comments are to be sent to Mike Glynn, at mglynn@aicpa.org. ♦

State Board Report

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