

Public Protection – No Middle Ground
Report from NASBA Chair 2012- 2013 – Gaylen R. Hansen
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It's customary for NASBA's Chair to report on activities for the past year. I had an early start with that last week at the AICPA's Council Meeting in Los Angeles. Some of you were there and my remarks will echo what I covered then.

It was very much a homecoming for me in L.A. I was raised in Southern California. I went to college there and began my career with Arthur Andersen, just a few blocks away from where the AICPA meeting was held. I actually took some time to visit the old neighborhood. It brought back so many memories. The building, and of course the firm, is gone but my experiences live on.

I related to the AICPA an experience I vividly remember. It was when I was attending new senior training in Pasadena. The Firm brought in a guest speaker, Leonard Spacek. As many of you know, Leonard was the Andersen managing partner that grew the Firm into the giant it eventually became. He was known for his focus on integrity, fairness and the Firm's motto, "Think Straight, Talk Straight."

Well, Leonard passed away in 2000, just two short years before Andersen closed its famous oak doors for the very last time. Andersen's downfall reminds us of how an incredible reputation can be destroyed practically overnight. The fallout devastated many people; some of them were my friends, and likely some were your friends too.

During the new senior training, Mr. Spacek told us that we were among the best and brightest and that our future was filled with great promise. But he also warned that we would fail miserably unless we came to understand and live lives of integrity. His fears were so prophetic. If his successors had only thought straight, and talked straight, the accounting world would be so much different today.

Well, thank you for allowing me to reminisce again. But enough of that. I'm here to give you an update on a few of the more critical developments of the past year. First, I'll fill you in on some of the thinking behind the highly publicized standard-setting controversies that occurred, and then I'll touch briefly on some major developments that you will hear more about later at our conference.

As you know, we were engaged in a Blue Ribbon Panel process with the AICPA and the Financial Reporting Foundation that led to formation of a Private Company Council (PCC). The PCC is addressing the complexity and relevance of generally accepted accounting principles (GAAP), to try to make things more user friendly for private companies. We agree with the AICPA and FASB that GAAP, as it has evolved, may not always meet the needs of some small private businesses.

We promised you last year that we would closely monitor the PCC's activities. We have kept that promise. In its first ten months they have met five times. We have been at each of those meetings. I personally attended three. We've just heard from Russ Golden about the PCC's progress on a very ambitious agenda, and PCC Chair Billy Atkinson will further inform us this afternoon.

The PCC's task is monumental – as it would be for any organization. And of course, the changes we are hoping for can't take place fast enough. But in the long run, a successful PCC will ease the burden of private companies in complying with U.S. GAAP, which I remind you, *is still the world's gold standard*.

Historically, the AICPA has led the way with standards in the U.S. State regulation followed, then Federal after the Great Depression. This progression of regulators trying to catch-up with the profession is unfortunate in one respect: there can be some confusion over the differing roles, authority, and responsibilities of each group.

On the one hand there is a national professional membership organization with a substantive standard-setting agenda. Then we have a regulators charged with enforcing those standards. With most professions, regulators set the standards they are expected to enforce. In this profession that has not always been the case – and so from time to time there is some level of confusion.

The mission of the AICPA is to support its members and strengthen the accounting profession, and rightly so. Is that to say the Institute has no regard for public protection? Of course not! I served on the AICPA's Professional Ethics Executive Committee for seven years. While on PEEC, I saw firsthand the professionalism of AICPA staff and volunteers, and of their concern for the public. In my current role, I have worked closely with Institute leaders and have the utmost respect for their abilities and their public interest focus. These are good people. We commend them for their service.

On the regulatory side, there you are, the 55 Boards of Accountancy and NASBA. For us watching out for public well-being is a near-sacred responsibility. Does that mean State Board members don't care about the health of the profession and its firms? Heavens no! While most State Boards have non-CPA public members, the majority are practitioners like me. And we get it: *A healthy profession will provide public protection, and vice versa – public protection will result in a healthy profession.* So we have circular logic that works.

In July, NASBA and AICPA issued a joint press release indicating their commitment to the PCC's eventual success in developing a GAAP-based model for all private companies. The release also put to bed differences about the AICPA's new Financial Reporting Framework for Small and Medium-Sized Entities (FRF-SME).

The FRF debate helped me understand one thing that I believe brought NASBA and the AICPA closer together. And that is realizing when we challenge

each other, in good faith, it's a good thing. *And it's healthy – for the public and the profession.*

When details about the Framework began emerging, we expressed a number of legitimate concerns, including suitability of use and the lack of disclosure differentials from GAAP. Because of the strong relationship and willingness of both sides to talk through and resolve those differences, the Framework is much better today.

Does this mean that NASBA endorses the Framework? No, but I'll explain. As regulators, we are charged with enforcing authoritative standards, and the Framework is presented as non-authoritative guidance. We can no more endorse the Framework than we could endorse any Other Comprehensive Basis of Accounting (OCBOA), like tax or cash basis financial statements.

The Framework may end up filling the needs of some small companies in certain situations. It may also pressure the PCC and FASB to speed things along. But whether there will be a long-term need for the Framework remains to be seen, especially if the PCC is successful.

You may be wondering where does this leaves your board – is there anything you need to do? We don't believe so; at least not at this time because changes have or will be made to the Framework to address the concerns we made public.

The debate raised a larger question about authority in general, not just with respect to accounting standards. What is authoritative and who gets to decide? And what about non-authoritative guidance – are there different rules for it? What about enforcement? What if a CPA advises the use of guidance that is unsuitable in the circumstances? Should there be any consequences? These are tough, tough issues – and I've appointed a standard-setting task force to study them in depth. Part of their charge is to question the current standard-setting role of State Boards versus what it

should be. This is a very complex issue that will require some heavy lifting. *But it needs to be done. And it needs to be done now.*

One last thing on this and I'll move along. In dealing with the private accounting matters, I'll admit I was shocked by some of the backlash. Some critics said our objections were made only *under the guise of public protection*. I'll repeat since the statement is so incredulous: *some critics said our response was made under the guise of public protection*. One person actually complained that we had not applied due diligence or due process. Talk about an interesting attempt at a role reversal!

I don't need to tell this group that the very foundation, the very essence and purpose of Boards of Accountancy **is** public protection. *Public protection will never be compromised – on this there is not, nor will there ever be middle ground. We will speak out, with your input, whenever the public trust is threatened. That is the job of NASBA, just as it is for Boards of Accountancy.*

There are many other important matters underway that you'll hear more about at this meeting.

- A new Uniform Accountancy Act (UAA) definition for attest. Why is that so important? It defines services requiring CPA licensure. It triggers peer review.
- Discussion of firm mobility – Ken Bishop will be talking to you more about this in his presentation.
- Compilation services standards rewrite that will incorporate concerns expressed in our Regional Meetings about independence and reporting.
- Progress on amending and extending the Uniform CPA Examination contract through 2024.
 - A new committee – the State Society Relations Committee. We are really excited about this new kind of committee. We have always worked

closely with state societies informally, now we have a dedicated forum to discuss issues in a more structured way.

Our public responsibility is rooted in fundamental ideals of integrity and fairness. We all hold to those aspirations. As a young man I was taught them by the likes of Leonard Spacek. We have seen disastrous consequences when ethical values are disregarded.

On behalf of NASBA, my report to you, collectively the Boards of Accountancy is that this past year we have been faithful to our core principles and ethical values. *NASBA, as your membership body has been vigilant in assisting you in protecting and preserving the public trust.*

As I wind up my last few hours as your chair, I have one final plea. Please recognize that your time to serve is so short, and yet so very precious. You Board members are unique. You wear invisible mantles, conveyed thru a democratic process to protect your fellow citizens. When your time to serve comes to an end, as mine will tomorrow, make sure you can look back and say that you made a difference, that you have used your time wisely to protect and serve a public that trusts you.

Thank you.