# NASBA

## 108th Annual Meeting

Dana Point, California October 25–28, 2015

**Report of NASBA President & CEO**

Ken L. Bishop

# PRESIDENT'S REPORT: STATE OF NASBA

KEN L. BISHOP

NASBA PRESIDENT & CEO

NASBA

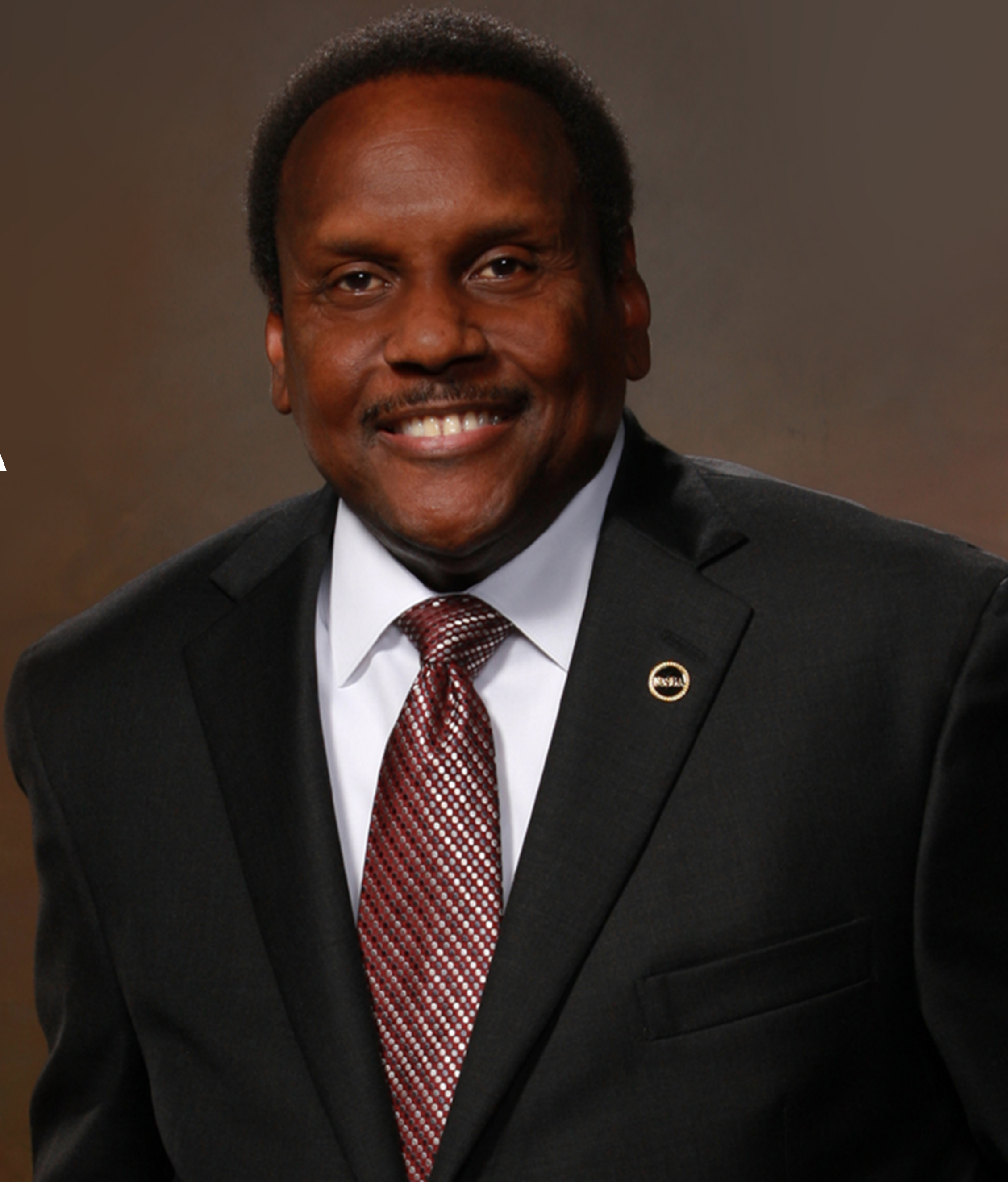
# STRONG AND RELEVANT

And We Are…

# EMBRACING THE FUTURE!

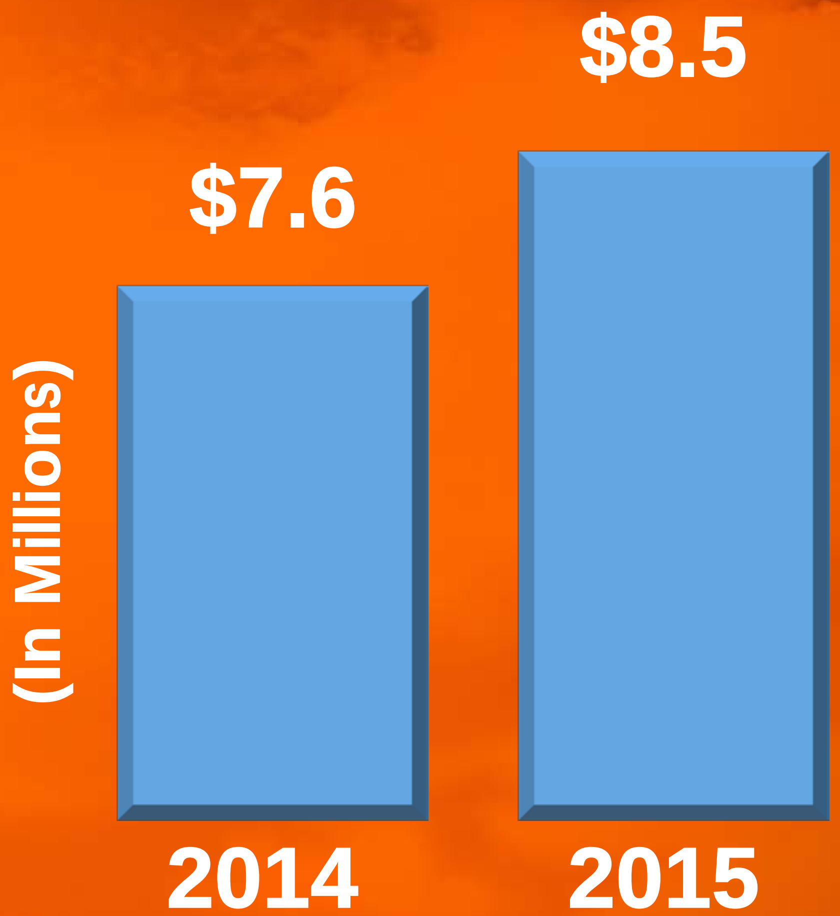
**WALTER C. DAVENPORT, CPA**

2014-15 NASBA CHAIR



# UNRESTRICTED NET ASSETS FIVE-YEAR TREND

# MISSION SPENDING
# IN SUPPORT OF STATE BOARDS



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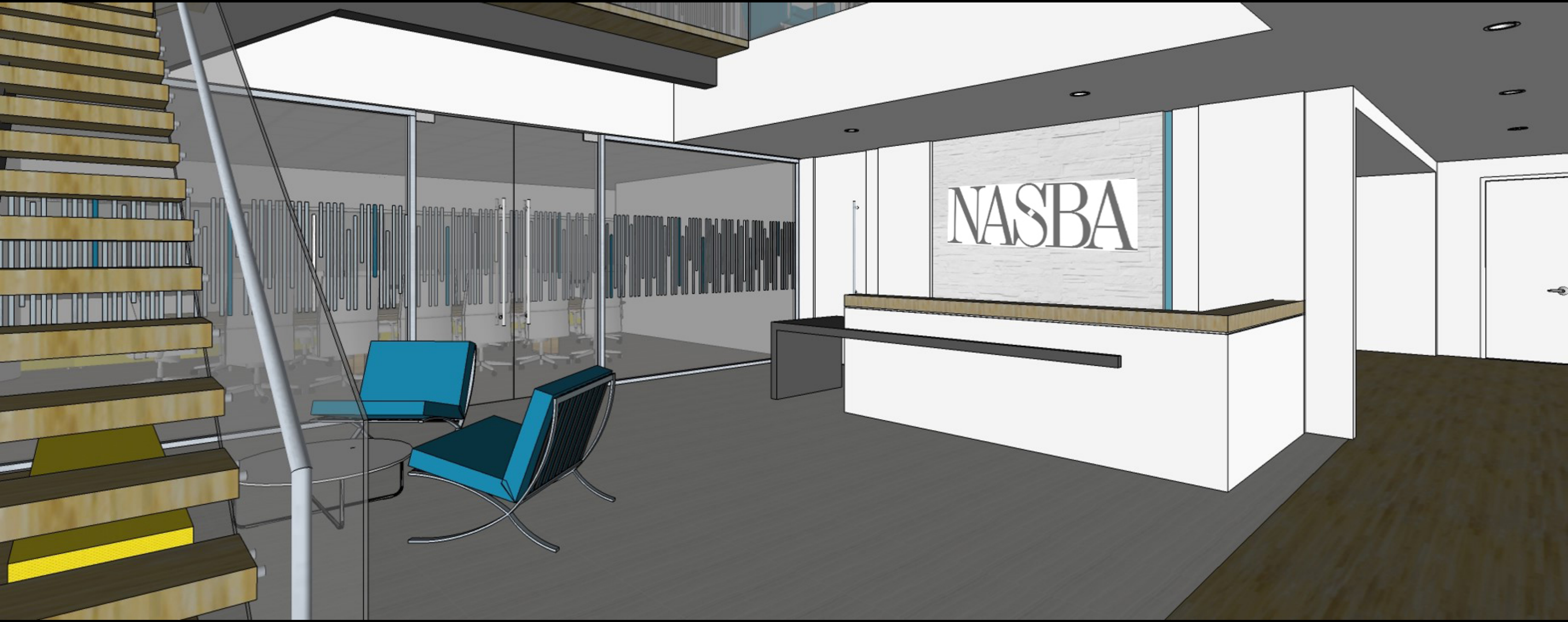
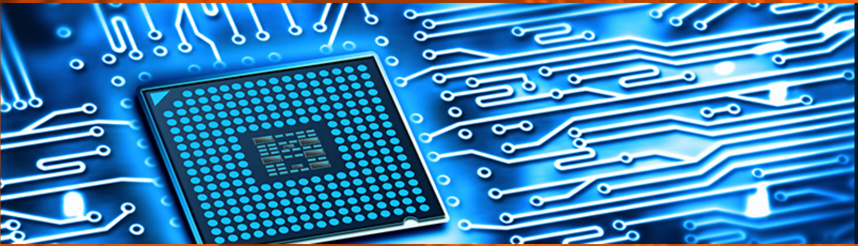
# REBUILDING NASBA FOR THE FUTURE



# NASBA IN THE NEAR FUTURE



# INVESTING FOR THE FUTURE



## GATEWAY SYSTEM REWRITE

ALD
US Accountancy Licensee Database

## CPAES SYSTEM UPGRADE

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# Balancing the Three-Legged Stool

Ken L. Bishop
President & CEO

About 15 years ago, when I retired from my career in law enforcement and became the director of the Missouri State Board of Accountancy, my predecessor in Missouri, Bill Boston, left me a lengthy letter that outlined his thoughts on the importance of the job. There was a lot of good advice in that letter, but three recommendations stood out for me -- then and now: First, he said to remember that the protection of the public was the reason we exist. Second, he stressed the importance of having a strong and trusting relationship with the State Society. Third, he emphasized the importance of "the three-legged stool" of CPA licensure: education, examination and experience. Bill's advice has served me well.

Today, the three-legged stool looks much different than it did 15 years ago. The Uniform CPA Examination then was a conditioned paper-and-pencil test with first-time pass rates in the teens. The experience requirement was for multiple years including attest work in a CPA firm under the supervision of a licensee, and the education requirement had recently been raised to 150 hours, to increase the overall standards of entry into the accounting profession. While we could have interesting discussions about all three elements of the "stool," this Memo is focused on the education requirement.

I remember well the arguments for raising the education bar to 150 hours. It was challenging and controversial for many states, and only in the past few years have all jurisdictions adopted the 150-hour requirement. The myriad of reasons for the increase included: achieving the academic background needed to support a CPA's learning over a career span, enhancing communications and interpersonal skills, and acquiring greater accounting expertise. All were valid then and they are now. NASBA has steadfastly supported the 150-hour requirement and its nexus to public protection.

Recently, we have witnessed dramatic changes in the way post-secondary education has been delivered and measured. Historically, accounting education was delivered in bricks-and-mortar colleges and universities, using strict hour requirements of class time, homework and evaluations. In more recent years, we have seen an increase of on-line education availability. While the method of delivery changed, the requirement of prescribed courses with testing remained fairly constant. However, now a variation of education that drastically changes the traditional format has become apparent.

In the past year, we have seen the advance of "competency-based" education into the sphere of CPA licensure. Educators have been talking about competency-based learning for years, but that has only lately had an impact on what CPA candidates are actually presenting to the Boards of Accountancy. It is too early to say whether that is a good or bad thing, but it is certainly different. Big players, such as the Western Governors University, are attracting thousands of students and are granting accredited degrees to students based on "life experience" that is somehow translated into knowledge, skill and ability. As traditional colleges and universities are threatened by the loss of students (and related dollars), they too are beginning to give college credit for "experience" in order to remain competitive. Again, it is too early to say this is bad, but it sure is different.


A quick comparison of contrasting scenarios, based on real candidates: Traditional Student A has attended college for five years and has his/her transcript evaluated for sitting for the Uniform CPA Examination (and ultimate licensure) and is determined to be missing a mandated business course. Student A is required to return to college for an additional semester to meet the requirement. Student B enrolls in a competency-based college and, based on an assessment of his/her experience, knowledge and skills, is determined to have achieved a "value" of 150 hours, and therefore has met the requirements for sitting for the CPA Examination and for licensure in less than six months total time. Most states have statutes that recognize the degrees and transcripts of colleges accredited by a list of acceptable accrediting bodies. In the comparative scenario described, both colleges were accredited and met the requirements of the applicable state statutes.

NASBA's Chair, Walter C. Davenport (NC), and the NASBA Board of Directors have concluded that this matter needs to be studied and understood. Chair Davenport has appointed an Education Committee, chaired by Dr. Robert Cochran (vice chair of the Virginia Board of Accountancy), which includes an unprecedented eight Ph.D.s with State Board experience, who will be undertaking the review. We will be sharing our thoughts with AICPA leadership and our State Society Relations Committee, and will be reporting back to our State Boards, including presentations at our Regional Meetings. NASBA will also be meeting with accepted accrediting bodies to understand how they are monitoring and/or reacting, and we will also fund research into this matter.

Again **caution**! We have not yet determined, nor are we implying, that the changes in education are necessarily bad. Remembering that the protection of the public is our primary reason for existing, and "the three-legged stool" is a critical element of that undertaking, we are being prudent to make sure it does not become lopsided and topple.

*Semper ad meliora (Always toward better things).*

*— Ken L. Bishop*
*President & CEO*

# World's Premier Accounting Credential = U.S. CPA

**Ken L. Bishop**
**President & CEO**

Some of you may have flinched a bit when you read the title of this month's *President's Memo*. For many of us who have been associated with the regulation of the accounting profession for years, any promotion of the profession was considered conflicting — and for a few it bordered on heresy or hubris. Some might question why, at a time when there is public scrutiny of the profession with concerns being raised about audit quality and investor confidence, would the President of NASBA make such a declaration. As a high profile friend in the U.S. accounting profession recently commented to me, "The quality of audits performed by U.S. CPA firms is still the highest in the world." In fact he is correct. The benchmark of audit quality, whether admitted to or not by the rest of the planet, is auditing performed by U.S. CPA firms.

I am not too far out on a limb here. I recently returned from meetings with Japanese and Chinese educators and regulators. The constant and recurring theme of those meetings was the recognition of the premier status of the U.S. CPA, even compared to their native credentials. Students and practitioners in both countries testify to the importance of acquiring a U.S. CPA license. Interestingly, the message from Asia echoed what I have heard from the United Kingdom, that our failure to promote and protect the U.S. CPA credential, and our willingness to allow the use of credentials that are confusingly close to the regulated credential, could ultimately damage credibility and harm the public.

As I reported at the June Regional Meetings, the volunteer members of the NASBA Strategic Planning Task Force for the first time included the importance of maintaining the CPA candidate pipeline as one of our priorities. Recognizing and articulating that most of the work performed by U.S. CPA firms is the best in the world can go a long way toward continuing to attract the best and brightest to the profession.

I should be clear that my assertions are in no way acceptance of insufficient and/or bad work. In fact, in the U.S. regulatory structure, mediocre and technically deficient work is not accepted. The State Board regulatory system is formidable. The U.S. CPA credential has grown to its dominant global role under that regime, while much of the rest of the world has seen inferior credentials gain practice privileges, including attest and audits, which has resulted in loss of consumer confidence and reliance.

For decades, Boards of Accountancy have successfully worked to protect the public from individuals or firms that have attempted to use any credential, title or designation that was likely to have been confused with "Certified Public Accountant" or "CPA." We should anticipate and be prepared for attempts to weaken both our resolve and ability to maintain that protection. This morning, I looked through some websites hawking accounting credentials and they all contained a common message: They use words like "inevitable change," "specialization" and "ethics" to justify, promote and sell their credential.

I am reminded of an event I attended a while back where an "accountant" handed his business card to another attendee. The card contained a string of credentials, abbreviations and letters. After a bit, the confused recipient of the card asked, "So are you a CPA?" A moment passed before the accountant responded, "No. I could never pass that @#%^ test!"

Supplementary credentials may be desirable and useful for designating specializations, but without being linked to the bedrock core of a "CPA" and the integrity of being part of a robust, disciplined and regulated profession, they are just letters on a card. That is unless these credentials are given a toe-hold in the U.S. and lead to the chipping away of the value and relevance of "CPA." It has happened elsewhere. It remains an important part of the role of the State Boards of Accountancy to protect the U.S. CPA credential, the world's premier accounting credential. That's not to promote the profession -- but to protect the public.

*Semper ad meliora (Always toward better things).*

*— Ken L. Bishop*
*President & CEO*





# I Am Concerned!

**Ken L. Bishop**
**President & CEO**

Most of you know of my work background, which essentially has two parts: a career in law-enforcement followed by a career in regulation. While different, both parts share a common purpose in that each has been dedicated to public protection. Now that I am in my last decade of service, I am seeing changes and challenges to both law-enforcement and the regulation of the accounting profession that are difficult to tackle. Frankly, I am concerned.

I certainly will always have an interest in law-enforcement, but now my focus is clearly on accounting and the Boards of Accountancy's role in the protection of the public. In my last *President's Memo* I raised some eyebrows and irritated a few colleagues by discussing the importance of the U.S. CPA and the possible dilution of the credibility of the CPA profession. It wasn't my intent to annoy anyone, but it was certainly my intent to bring the discussion out into the bright light of day — and maybe to send a wakeup call to those who are either unaware of or apathetic to changes on the horizon.

Let me disclose that after nearly 20 years of regulating, studying and coming to know the attributes of the profession, I have determined that the U.S. CPA credential, both for individuals and firms, is the highest bar for quality, credibility and ethics. Whether the services provided are audit, taxes, public accounting, consulting or in business and industry, for all these, the education, examination, experience and continuing professional development, which are verified and regulated by Boards of Accountancy, make the CPA the premium benchmark.

So, what is the reason for my concern? We are at a point in time when a significant percentage of the population of U.S. CPAs are baby boomers who are retiring at an increasing rate. Although the enrollment of students in accounting education in our colleges and universities is at record numbers, we are seeing a decreasing percentage of accounting graduates sitting for the Uniform CPA Examination, resulting in the number of new CPAs being relatively flat. In effect, the number of new CPAs entering the profession neither fills the void created by the retiring CPAs nor the increased need for new talent in the robust accounting profession.

NASBA has devoted significant resources to both collect and analyze data to better understand the behavior of accounting graduates. We have developed strategies for addressing diversity in the profession so that we are prepared for the continuing demographic changes of the country. As I mentioned last month, the NASBA strategic plan mandates that we make growing the CPA licensing pipeline a high priority.

The potential of decreasing numbers of CPAs can have an impact on corporate/government requirements, professional association membership and, yes, even Boards of Accountancy. There is no doubt that we will all have to think outside the box. My concern is that some of the suggestions, reactions and remedies that I have been made aware of raise possible threats to public protection. There are proposals for altering everything including the amount and type of education, the toughness of the Examination and the scope of practice privileges. Even whether potentially confusing credentials can be used by non-CPAs and whether those non-CPAs should be allowed to join organizations that have been traditionally limited to CPAs are being proposed and discussed. Change is inevitable. I get that. But, I am concerned about choosing the best options.

I have always been, and will always be, a proponent of change. I championed CPA mobility, global reciprocity, diversity and other changes that were challenging for many at the time. To mitigate the concerns on those issues we worked with Boards of Accountancy, AICPA and state CPA societies to develop strategies, enforcement capabilities and compensating controls to make sure the public is protected. We have to exercise that same level of caution, review and due diligence as we consider proposed changes.

I think we can meet the challenges of the future, but, for now, I am concerned about how we get there.

*Semper ad meliora (Always toward better things).*

*— Ken L. Bishop*
*President & CEO*

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# Changes Coming Fast in CPA Profession

NEW YORK (OCTOBER 9, 2015)

BY MICHAEL COHN

The pace of change in the CPA profession is getting faster, and not enough accountants are ready, according to New York State Society of CPAs executive director Joanne Barry.

Joanne Barry

Speaking Thursday during an Accountants Club of America luncheon in Manhattan, Barry talked about a host of recent trends. "The landscape is changing dramatically, and not enough CPAs that I speak to are aware of the dramatic changes that are happening in the profession and how the profession needs to be responsive to what's going on, more so than they have been in recent years," she said.

She pointed to the need for rapid adaptation to change. "The firms that are succeeding are making their moves on a chessboard," she said. "If you're a good chess player, you're always anticipating the next two or three moves. Those next two or three moves aren't going to happen in the next two or three years. They're going to happen within the next two or three months. That's how fast the pace of change is happening when I speak to CPAs who are really involved in trying to dramatically shake up their firms."

PARTNER INSIGHTS WHAT'S THIS?

A Quick Guide To Accounts Receivable Insurance

Accounts Receivable Insurance Gains Popularity in U.S.

How CFOs Are Managing The Largest Asset On Their Balance Sheet



### Changing Demographics

She noted that demographics have had an extremely disruptive impact on firms, with more firms moving in the direction of having non-CPA owners. The client world is also changing, with virtual CPA firms servicing clients remotely. Younger generations are also filling more positions at firms as Baby Boomers retire, although not quickly enough for many firms to be able to fill their ranks, causing more and more of them to merge together. Generation X and Millennials are less interested in working their way up through the ranks and paying their dues by feeding the copy machine. Millennials tend to do their networking through social media rather than by going to networking events.

She noted that 71 percent of CPA firms in New York now have a "business casual" dress code, while only 6 percent require traditional business attire such as a jacket and tie all the time.

"Firms are trying to accommodate and change the culture," said Barry.

More firms have also been accommodating their employees by allowing them to work remotely, she noted. Plus, more firms have been doing away with basing their fees on billable hours. "It's value-based pricing, not hours-based pricing, and a lot of firms are moving in that direction," said Barry.

### CPA Exam Takers

Firms are increasingly using technology and non-CPAs, freeing up CPAs to do higher-level, more strategic work.

...nts than ever before in New York State are studying accounting, and there is not enough space to ...te all of them. "However those students are not sitting for the CPA Exam," Barry added. "The number of ...has been flat for two and a half years now. Why? We don't know for sure."

...n Institute of CPAs and the American Accounting Association are doing research to find out why. "One ...find out is that the messaging from the managing partners and the senior partners in the firm is directly ...the number of candidates who have the ability to sit for the exam and have the motivation to do so."

...sted that more CPA firms should spread the word about taking the exam to their employees, as well as ...candidates to take the test, give them time off to study for it and pay for the licensing fees. "That's going ...ng needs in the future," she said.

...re even hiring students who choose not to sit for the CPA Exam and bringing them into the firm anyway. ...d we're seeing is that firms are moving away from the attest area and more and more into consulting ...re using the best and brightest non-exam takers to build on their non-attest services." Many of those ...end up working in technology consulting.

...7 and 2014, there was a jump from 13 percent to 26 percent in non-accounting graduates hired by CPA ...ointed out. "That's the kind of recruiting that's happening on campus now, in addition to recruiting for ...es," she said.

...o inclusion changes underway in the profession, with firms trying to increase the number of ...ented minorities."

...rying to address this change since the 1980s, when there was less than 1 percent of African ...the profession on a national basis," said Barry. "That needle has moved just a little bit since the mid- ...in the low single-digit numbers. Yet the client base here in New York in particular is much more ...ver before."

...younger CPAs want to see more diversity in CPA firms and not seeing diversity makes them

...A Trends

...viewed some of the results of a recent survey by Rosenberg Associates for the New York State ...s on trends in the profession in New York. The full results will appear in an upcoming issue of the ...PA Journal.

...l revenue growth in 2014 for firms over $2 million averaged 6.7 percent in New York. "That's a pretty ...said Barry. "The bad news, however, is that's about the same as the number from the prior year, and ...ct of mergers is figured in, organic growth slightly declined. Firms have been so active in the M&A ...efforts that need to go into that with absorbing the clients together, that it's taking away the focus on ...that the firms need for developing business. The second negative is that New York firms are being ...parts of the state by the acute shortage of staff, and when that happens, practice development has to ...me firms are being forced to drop their least lucrative clients so they can expend their energy in ...ore lucrative ones."

...ement trends, nationally the number of partners over the age of 50 rose to 65 percent. In New York, ...e of partners is 55. "The greying of the profession is happening everywhere," said Barry. "The aging ...ntinues to drive up the mergers. Many firms simply don't have a succession plan in place, and that's ...frenzy is going on. The mandatory retirement age in New York stretches from 65 years old to 72

...hanging on longer

...t in two years. "Firms ...don't see a way in, so ...partner track more

...out, in many cases ...firms at this point. "It

...ge of managing ...," said Barry. "What ...t to get it done, and ...o say that a CPA with ...me partner, that type of ...really exist. So the tug

...e and their sense of ...priate leadership ...on't invest in ...rtner track and to

...s an area we all


BEFORE WE BEGIN
Some important notes

# A BRIEF HISTORY

## 2011 → 2012 → 2015

**2011**

AICPA Leadership tells NASBA about impending relationship with CIMA and that AICPA will be offering CGMA in the U.S.

**2012**

AICPA website offers CGMA to non-CPAs that have been determined to meet the UAA/3E requirement by the AICPA and makes them full voting members of AICPA.

**2015**

AICPA tells NASBA leadership that AICPA is considering reorganization will allow non-CPAS who are not 3E to assume and use CGMA and to be members of AICPA.

Uniform Accountancy Act (UAA) Sixth Addition

**§14(c) [Unlawful Acts]** No person not holding a valid certificate or a practice privilege pursuant to Section 23 of this Act shall use or assume the title "certified public accountant" or the abbreviation "CPA" or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that such person is a certified public accountant.

**§14(g) [Other misleading titles]** No person or firm not holding a valid certificate, permit or registration issued under Sections 6, 7, or 8 of this Act shall assume or use the title "certified accountant," "chartered accountant," "enrolled accountant," "licensed accountant," "registered accountant," "accredited accountant," or any other title or designation likely to be confused with the titles "certified public accountant" or "public accountant," or use any of the abbreviations "CA," "LA," "RA," "AA," or similar abbreviation likely to be confused with the abbreviations "CPA" or "PA."

**§14(h)(2) [Use of titles in reports]** (2) No person or firm not holding a valid certificate, permit or registration issued under Sections 6, 7, or 8 of this Act shall assume or use any title or designation that includes the words "accountant," "auditor," or "accounting," in connection with any other language (including the language of a report) that implies that such person or firm holds such a certificate, permit, or registration or has special competence as an accountant or auditor,

# Uniform Accountancy Act (UAA) Sixth Edition

# NASBA/AICPA Discussion

NASBA/AICPA Discussion

1. AICPA board will adopt a resolution that when CGMA for non-CPAs goes into effect, if a non-CPA CGMA references AICPA membership, they must use this language: “non-CPA associate member of AICPA”.

2. Expand AICPA rules on the web and in information regarding CGMA to:
   a. Be crystal clear there can be no CGMA firm.
   b. Add statement that non-CPA CGMAs must comply with state law and state board rules/regulations including the use of credentials/titles.
   c. Add/Make clear that a non-CPA CGMA cannot solicit, practice public accounting or provide attestation services for the public (except under 2d)
   d. Add/Make clear that a non-CPA CGMA in a CPA firm can’t sign an attestation opinion – including audit (however, a CGMA can be on the attest/audit team)
   e. Add that by virtue of being a non-CPA associate member, it does not allow one to perform a compilation or review while referencing AICPA standards.
   f. Add the “non-CPA associate member of AICPA” piece to the rules

3. Provide link to rules on an annual basis in dues bill that says something like … by payment of this bill, you have read and agree to the linked statement.

4. If they don’t comply, they are subject to discipline by AICPA ethics division with potential loss of CGMA designation.


THE DISCUSSION CONTINUES

# A COLLECTIVE VOICE

## *Advancing the Common Interest*

NASBA

MISSION DRIVEN
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