

NASBA REGIONAL MEETING REPORT

The following is a summary of the agenda items discussed at the NASBA Regional Meetings in Ashville, North Carolina (June 4 - 6, 2008), and Newport Beach, California (June 18 – 20, 2008). Copies of PowerPoint presentations given at the meetings will be posted on the NASBA website, www.nasba.org, in the coming weeks.

NASBA Activities

NASBA President David Costello and NASBA Chair Sam Cotterell (ID) updated conference attendees on a variety of NASBA activities. Included in their report were:

- May 19, 2008 Exam Meeting – Issues discussed during the meeting included renewal of the CBT Service Agreement (contract between NASBA, AICPA and Prometric), which expires in 2014; the increasing cost of the exam and changes that could be made to reduce costs; control of the exam; a contingency exam; and international delivery of the exam. David Costello also indicated that NASBA had listened to state boards' objections regarding the international proposal and had revised the proposal to include state boards.
- Mobility – As of the meetings, 26 states had passed a full UAA mobility provision, and two states have “quid pro quo” provisions. David Costello predicted that by the end of 2009, 45 states will have adopted mobility provisions.
- ALD – 16 states have implemented the Accountancy Licensing Database, with 8 more states working with NASBA to implement it. The importance of ALD to CPA mobility was reiterated.
- US Treasury Advisory Committee on the Auditing Profession (ACAP) – Colorado state board member Gaylen Hansen is NASBA's representative on the Treasury committee. David Costello testified before the committee in December 2007 and stressed the important role state boards play as regulators of the accounting profession. He said he also testified in support of state board autonomy.
- CARB (Compliance Assurance Review Board) – Sam Cotterell stated that NASBA has gone in a slightly different direction than it had originally intended. NASBA is now focusing its attention on and support for state oversight review boards. NASBA is pleased with the AICPA's Facilitated State Board Access program, which make the peer review process more transparent.
- International Federation of Accountants (IFAC) – Although not a member of IFAC, NASBA has been attempting to work with a group of regulators within IFAC. David Costello again stated his concern that state boards of accountancy are not being recognized as the largest group of regulators in the world and pledged that NASBA will play a role at the international table.
- NASBA's Financial Condition – David Costello stated that NASBA is financially healthy and strong. It currently has a net fund balance of \$15,000,000.00. He said that he would like to see the net fund balance grow to \$20-25,000,000.00 so that NASBA will be prepared if a state board needs help with an enforcement issue.

Strategic Initiatives

Advisory Committee on the Auditing Profession (ACAP)

Gaylen Hansen (CO) reported on ACAP and his position on the subcommittee on Firm Structure and Finances. 98% of the 1,500 largest public firms are audited by the Big 4, therefore, the Committee is very concerned about reducing barriers to the growth of smaller auditing firms.

The Committee issued its May 5 draft report on May 15, and issued an addendum on June 3. Included in the report is a recommendation for operationally and financially independent state boards of accountancy. The report also calls for the codification of independence standards. The report does not address:

- Fraud responsibilities – Should individual partners sign an audit report in addition to the firm’s signature?
- Partner rotation.
- Internationalization.

The release of the final report has been pushed back to September 26, 2008.

While discussion of national licensure was not mentioned in the final report because of the ongoing success of states passing mobility legislation, there is a recommendation that all states enact the UAA mobility provision before December 31, 2011, and if that has not been accomplished, a Federal mandate to pursue a uniform mobility provision should be undertaken.

In another recommendation on coordination of enforcement efforts, NASBA stated it will pursue representing state boards in regular and formal discussions with federal regulators (PCAOB, SEC, Treasury, DOL, etc.)

Regulators and International Standards

Michael Weatherwax (CO) spoke of the increasing dialogue on the internationalization of accounting and auditing standards in response to the globalization of capital markets. He indicated that while initial discussions were about convergence of US GAAP with international accounting standards, there is now a growing acceptance of International Financial Reporting Standards (IFRS) as a basis for U.S. financial reporting.

NASBA, however, has not taken a position on IFRS. Mr. Weatherwax pointed out that high level discussions have not addressed the role of state boards as regulators. Moreover, there are other issues with which NASBA is concerned, such as how the standard setting body develops standards, the independence of the standard setting body for non-public companies, and the willingness of the standard setting body to allow oversight by a third party. Many of these issues and concerns are highlighted in a paper released by a NASBA task force that was tasked with exploring international issues.

(Copies of the report are available from the State Regulation & Legislation Team upon request.)

In response to these issues, NASBA will be hosting a Forum of International Accountancy Regulators on October 29 -30, 2008 in Boston, Massachusetts. The Forum will begin at the conclusion of NASBA's Annual Meeting.

Mobility and ALD

NASBA Senior Vice President Ken Bishop reported on the phenomenal legislative success of mobility in 2008. At the time of the meeting, 14 states in 2008 had enacted a full UAA mobility provision. He thanked the AICPA, The Accountants Coalition, state societies and state boards for working together to accomplish mobility.

Mr. Bishop also spoke about the accountancy licensing database (ALD) project. He indicated that 16 states are fully participating, with 6 states in development. He also said that five more states are in discussion with NASBA. While NASBA has not met with any resistance from state boards in regard to their participation in ALD, there have been problems that needed to be worked out before a state board could participate. For example, some state boards have legal issues that must be resolved, while other boards that are part of an umbrella agency often have technology issues that need to be resolved before they can participate.

Ken Bishop acknowledged that many state boards have encouraged NASBA to pursue the ALD as an added component to the mobility initiative so that they will have a central location to check on out-of-state licensees.

Coordinating Regulatory Efforts

Linda Biek, NASBA Director of Government and International Relationships, and Governmental Agency Referral Task Force members J. Dwight Hadley (NY) at the Eastern Regional, and Laurie Tish (WA) at the Western Regional addressed the issue of federal governmental referral of complaints to state boards of accountancy. The Task Force was formed after there were several reports on the failure of state boards to respond to referrals from federal agencies. When state boards were asked by NASBA to comment, state boards responded that they had never received the referrals, that the state board had little or no resources to pursue the referral, or that the federal agency had not provided sufficient information in order to show a violation of state law or rules.

The Governmental Agency Referral Task Force is charged with improving communications with federal agencies, and improving the effectiveness and timeliness of federal referrals. The Task Force has developed a procedure for the referral of federal complaints to state boards that requires the federal agency to file the complaint first with NASBA, so that NASBA can track the status of the referral. NASBA has also engaged the Task Force in developing a strategy for NASBA to assist state boards with enforcement issues such as providing training for enforcement personnel, or providing personnel for technical assistance.

Oversight of Peer Review Programs

Mark Harris (LA), chair of the Compliance Assurance Committee reported on improvements to the AICPA's peer review program. Attendees were told that the AICPA's Revised Reporting and Review Standards will become effective on January 1, 2009. Also that peer review had become more transparent with the AICPA's Facilitated State Board Access program and the publication of oversight reports of administering entities of the AICPA peer review program. Mr. Harris also encouraged state boards to establish their own committee to oversee peer review programs in their state.

Eligibility for the Exam: 120/150

The session consisted of a panel of four state board members debating the merits of whether candidates should be allowed to sit for the exam with 120 hours or 150 hours of education. At the Eastern Regional the panel was comprised of Rick Elam (MS) and Lelie Mostow (MD) speaking in favor of maintaining the 150 hour requirement for examination, and Richard Isserman (NY) and Patricia Smith (MA) speaking in favor of allowing candidates to sit with 120 hours of education. At the Western Regional the panel consisted of Michael Daggett (AZ) and Leonard Sanchez (NM) speaking in favor of 120 semester hours and Carlos E. Johnson (OK) and Kathleen Smith (NE) speaking in support of 150 hours. While the discussions were spirited at times, they did not result in any type of conclusion or recommendation. During the Western Regional, David Costello announced that NASBA's long awaited paper on the 120/150 issue would be made available on NASBA's website the following week.

NOTE: After the Western Regional meeting, a draft of the discussion paper was posted to NASBA's website:

[http://www.nasba.org/nasbaweb/NASBAWeb.nsf/PLD/979BF9457B37159D86257473005284DA/\\$file/120_150_Draft1_June_2008.pdf](http://www.nasba.org/nasbaweb/NASBAWeb.nsf/PLD/979BF9457B37159D86257473005284DA/$file/120_150_Draft1_June_2008.pdf). Please note that Section V of the paper is blank at this time. NASBA posted the draft paper to allow state boards to comment on it and supply objective evidence that will then be added to Section V. It is our understanding that the final report will be presented at the Annual Meeting in October, and will likely end the 120/150 debate with the conclusion that allowing candidates to sit for the exam upon completion of 120 semester hours does not harm the public. The AICPA leadership will dialogue with the NASBA leadership on this topic during the joint Summit Meeting in August.

Closed Meetings with Regions

Participation in these meetings was limited to state board members, staff and former board members.

CPA Examination Review Board Report

Examination Review Board (ERB) Chair Barton Baldwin (NC) reported on the activities of the ERB, including the opinion of the ERB that Boards of Accountancy may rely on both the 2007 Uniform CPA Examination and the IQEX. Mr. Baldwin also addressed the ERB's analysis of NASBA and the AICPA's exam costs and found no material exceptions.

On the Horizon (Future Issues Q & A)

NASBA Chair, Sam Cottrell (ID) hosted a question and answer forum. Unfortunately, since attendees were not given advance notice of the format of this session, few questions were asked of him.

Mr. Cottrell, however, asked incoming NASBA Chair Tom Saddler (WA) to inform attendees of things to expect during his year as chair. Mr. Saddler indicated that there will be a realignment of some committees, as well as the addition of new committees. The Regulatory Structures Committee will be tasked with studying state board independence. He also indicated that he had asked Sam Cottrell to chair an international committee that will analyze global strategies. Another new committee is the Enforcement Practices Committee that will review multi-jurisdictional issues.

Breakout Sessions

Let the Public Know Your Board Is There

Sally Flowers (CA), chair of NASBA's Communications Committee, hosted the breakout sessions at both regional meetings. The purpose of the session was to discuss the work of the Communications Committee and to encourage state boards, if they have not already done so, to designate a communications officer to serve as a liaison between NASBA and their board. In addition to acting as a liaison, the communications officer is responsible for assisting with board responses to information requests and with promoting public awareness of a board's commitment to enforcement and public protection. Best practices were also discussed during the session.

Recognizing Non-US Professionals and Other Standards

Bill Treacy (TX), chair of IQAB, hosted this session at both regional meetings. He was joined by Robert Gray (NY), at the Eastern Regional and Michael Weatherwax (CO) at the Western Regional. Mr. Treacy addressed the IQAB's success in developing Mutual Recognition Agreements (MRA) with Canada, Australia, Ireland and Mexico. He also indicated that discussions had taken place with other countries including Hong Kong, India and the Philippines, but broke off because the countries wanted to reserve certain practice rights for their own citizens. According to Mr. Treacy, the IQAB will only enter into MRAs with countries where there are equal practice rights for all. He also indicated that because the IQAB would not recognize the Association of Chartered Certified Accountants (ACCA), the British government would not let the Institute of Chartered Accountants enter into a MRA.

Ethics Education – Before and After Licensure CPE Issues

Ted Long (OH) and Michael Weinshel (CT) hosted this session at the Eastern Regional and Harry Parsons (NV) hosted it at the Western Regional. During this breakout attendees discussed state board requirements for completion of an ethics exam prior to certification, and ethics CPE needed to renew a license. Information was compiled by NASBA and distributed at the session showing the wide disparity in the amount and type of ethics CPE required for renewal of a license. Many states require state specific ethics education which can create problems for reciprocal certificate holders, if the state board will not accept ethics education earned for renewal of a CPAs original state of licensure.

Legal Update

Noel Allen, legal counsel for NASBA and the North Carolina Board of Accountancy, discussed several new legal cases. Areas covered included malpractice/negligence, accountant-client privilege, grounds for discipline, and reinstatement/post-discipline relief.

The Uniform CPA Exam – Present and Future

Panelists included NASBA Vice President and COO, Joe Cote; Robert Pearson (MO) chair of NASBA's CPA Licensing Exams Committee (CLEC); and Colleen Conrad (MO), chair of the AICPA's Board of Examiners.

Joe Cote reiterated the issues that had been discussed at the May 19, 2008 Conference on the State of the Examination. Specifically, he addressed the type of changes that perhaps should be considered to the contract, such as having more state board/NASBA control of the exam; restructuring the calculation, determination and timing of fee increases; and strengthening NASBA's access to AICPA and Prometric cost information. He also spoke about cost containment since he estimated that the cost to candidates on combined AICPA, NASBA and Prometric fees could exceed \$1,000 per exam based on four sections. (Mr. Cote's estimated exam cost is unsubstantiated.) Suggested cost cutting measures include eliminating simulations, reducing the length of the exam, and eliminating the Prometric true-up. Mr. Cote also addressed having a paper and pencil contingency exam.

Robert Pearson reported on the CPA Licensing Examination Committee (CLEC). He said that CLEC had voiced various concerns to the BOE about the practice analysis, including that the practice analysis questions were too narrow, and that CLEC didn't understand how skills would be weighted. In addition, CLEC voiced concern that a second practice analysis may be needed to deal with IFRS. CLEC also asked the BOE for evidence showing simulations are necessary, since NASBA's psychometrician disagrees with the evidence previously submitted by the BOE. Mr. Pearson indicated that CLEC had submitted 13 names to NASBA for appointment to the BOE and related committees. Mr. Pearson closed by asking state board members to let CLEC members know what they would like to see changed or improved on the exam.

Colleen Conrad reported on the activities of the BOE including information regarding the practice analysis, the BOE's Invitation to Comment regarding proposed changes to the exam, and the current Invitation to Comment on content specification outlines and skill specification

outlines. She also reminded attendees that the current makeup of the BOE consists of a majority of individuals with state board experience. Ms. Conrad also identified several emerging issues that the BOE will be reviewing for inclusion in the exam including:

- IFRS implications
- FASB codification on research
- XBRL
- Knowledge recall vs. judgment

NASBA Annual Meeting

NASBA's Annual Meeting will take place October 26 - 29, 2008 in Boston, MA. For more information on this meeting please see: <http://www.nasba.org/nasbaweb/NASBAWeb.nsf/>