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## Spring Meeting of Council, April 29 - May 2, 2001, Volume 2, Grand Hyatt Washington, Washington, D.C.

American Institute of Certified Public Accountants (AICPA)

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S E C O N D        S E S S I O N

Tuesday, May 1, 2001

8:40 o'clock a.m.

CHAIRPERSON EDDY:     Good

morning.

COUNCIL MEMBERS:     Good morning.

CHAIRPERSON EDDY:     This

beautiful decoration is from the Hawaiian  
delegation. Today is leis day in Hawaii and they  
brought this to me today.

Come on you, guys.

(Laughter.)

CHAIRPERSON EDDY:     You know

about that in Hawaii and you didn't need to  
laugh.

Anyway, I thank the Hawaiian  
delegation very much and I quite enjoy wearing  
this.

Hope you had a great time last  
night in Washington. Certainly you had an evening  
off and time to get together with your  
delegations and have a good time. The weather is  
so beautiful here.

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2 We ordered it especially for  
3 Council and the Key Persons, of course.

4 I think one thing that we  
5 learned yesterday, and I think that's probably  
6 fortunate for all Americans, is that there is a  
7 whole lot of humor in politics.

8 And so I think we should be  
9 grateful for that.

10 We moved to the combined  
11 Council/Federal Key Person program agenda several  
12 years ago because we recognized the importance of  
13 the profession's leadership understanding the  
14 process in Washington and interacting with the  
15 nation's political leadership.

16 So much of what we do as a  
17 profession can be positively or adversely  
18 affected in Washington, and the leaders here must  
19 understand our positions on the issues.

20 And I hope you are prepared now  
21 to talk on your Hill visits about those issues.

22 We will have all that  
23 opportunity to express our views with our  
24 congressional leaders when we visit the Hill this  
25 afternoon.

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We have a lot planned for you today. We have a slight change in schedule. We will begin the program this morning with my having the privilege to present the AICPA Distinguished Achievement in Accounting Education award to W. Steve Albrecht.

After that presentation, we will have a report by the President and CEO, Barry Melancon.

And after Barry, we will have an update on developments relative to the computerization of the Uniform CPA Exam. You may have heard some things about this issue in your state and we have Bill Holder, who is the Chair of the CIC, here to give us the latest of what's happening with the computerization of the Exam.

That will be followed by John Hunnicutt's briefing on the Global Credential Member Information and Response Team.

And we will then the close the morning with a panel discussion on the Global Credential that will be moderated by Michael Rayner, the President of the Canadian Institute of Chartered Accountants.

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2 Before we begin our business, I  
3 have some very good news.

4 I would like to share with you  
5 that the AICPA Awards Committee met in January.  
6 And in addition to selecting the AICPA Public  
7 Service Award Recipient, who will be introduced  
8 to you tomorrow, they also selected several  
9 individuals worthy of recognition.

10 These announcements would  
11 normally be made by the Awards Committee  
12 Chairman, Bob Mednick. However, Bob is teaching  
13 in Israel and cannot be with us at this meeting.

14 It is, therefore, both my  
15 privilege and my pleasure to announce Tom  
16 Rimmerman of California, a former Chairman of the  
17 Board of the AICPA, will receive the Institute's  
18 highest award, the Gold Medal Award, at the Fall  
19 2001 meeting of Council in Miami.

20 Tom.

21 (Applause.)

22 CHAIRPERSON EDDY: Marilyn  
23 Pendergast of New York, a former Chair of the  
24 Institute's Professional Ethics Executive  
25 Committee and currently Chair of IFAC's Ethics

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Committee, recently received a Special Recognition Award for her yeoman efforts to establish an international Code of Professional Conduct.

And I'm pleased to say that IFAC's Code of Ethics for Professional Accountants was just released as an exposure draft.

Marilyn could not be with us today. She got her award last week I guess it was at the Board meeting.

So let's just recognize her.  
(Applause.)

CHAIRPERSON EDDY: Also, Tom Hood, the Chief Staff Executive of the Maryland Association of CPAs, and J. Clarke Price, President and CEO of the Ohio Society of CPAs, will be recognized with Special Recognition Awards at our annual Interchange Conference this summer in New Orleans. Tom is being recognized for his outstanding efforts in advancing the profession's Vision and Clarke for his efforts in establishing the Shared Services LLC.

Tom and Clarke, are you both

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here?

(Applause.)

CHAIRPERSON EDDY: Now for some Council business.

We now turn to agenda item No. 5-A. We have a vacancy on Council for which the State Society has nominated a successor.

In Minnesota, John M. Frees has been nominated to succeed Lori Eglund for a term on Council ending October 2002.

This nomination was approved for consideration by Council by the Board of Directors at its February 8-9, 2001 meeting.

May I have a motion to approve the election of John Frees to membership in Council?

A COUNCIL MEMBER: So move.

CHAIRPERSON EDDY: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRPERSON EDDY: Any objection?

(No response.)

CHAIRPERSON EDDY: Those in

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favor please say "aye."

(Chorus of "ayes.")

CHAIRPERSON EDDY: Opposed?

(No response.)

CHAIRPERSON EDDY: The motion carries.

The nominated member from Minnesota is hereby elected.

Please join me in welcoming him to Council.

(Applause.)

CHAIRPERSON EDDY: The next order of business is Item 5-b, the approval of the minutes of the October 23-24, 2000 Fall Meeting of Council which were distributed to you prior to this meeting.

May I have a motion to approve the minutes of the October 2000 meeting?

A COUNCIL MEMBER: So move.

CHAIRPERSON EDDY: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRPERSON EDDY: Is there any discussion?



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(No response.)

CHAIRPERSON EDDY: Those in favor of adopting the minutes, please signify by "aye."

(Chorus of "ayes.")

CHAIRPERSON EDDY: Opposed, "nay."

(No response.)

CHAIRPERSON EDDY: The motion carries.

And the minutes of the October 23-24, 2000 Fall Meeting of Council are approved.

These minutes will be placed on the AICPA's website.

Now I have the honor of presenting the AICPA Distinguished Achievement in Accounting Education Award.

The future of our profession depends on the number and quality of young people who join us. That, in turn, depends on whether quality people decide to study accounting and how well those who do are trained in their collegiate and post-graduate education.

And by training I include

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learning and understanding the profession's values.

The Institute annually selects a member of the academic community who best serves these truths to receive the AICPA Distinguished Achievement in Accounting Education Award.

This year the award goes to Dr. W. Steve Albrecht.

Steve, would you join me at the podium, please.

(Applause.)

CHAIRPERSON EDDY: Steve is the Associate Dean of the Marriott School of Management at Brigham Young University. He has been recognized within the profession and the university for his outstanding teaching and research capabilities.

In fact, many of you were here at the Fall Meeting of Council when Steve shared with us the results of his co-authored study, with Bob Sack from the University of Virginia, on "Accounting Education: Charting the Course through a Perilous Future."

Steve has served the profession

2 as a current member of the AICPA Council,  
3 President of the American Accounting Association,  
4 President of Beta Alpha Psi, President of the  
5 Association of Certified Fraud Examiners, Chair  
6 of the AACSB Accounting Accreditation Committee,  
7 and member of the Board of Regents of the  
8 Institute of Internal Auditors.

9 As you can see, whatever Steve  
10 has been involved in, he has contributed and been  
11 recognized as a leader.

12 Steve is also a outstanding  
13 teacher. His teacher evaluations at BYU are  
14 consistently in the exceptional and excellent  
15 ranges, and he is only one of a couple faculty  
16 members to have received a perfect 7.0 rating on  
17 his overall student evaluations.

18 Steve is a thoughtful leader  
19 within the profession.

20 And, therefore, I am pleased to  
21 present Steve this award today.

22 Congratulations, Steve.

23 (Applause.)

24 DR. W. STEVE ALBRECHT: Thank  
25 you very much, Kathy.

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This is a great honor for me and it's a honor that means a lot to me and will throughout my life.

I also would like to thank the Utah Association of CPAs for nominating me. There are many academics across the country that are probably more deserving than I am, but it's a honor that I will cherish and hold dear for a long time.

I grew up in Southern Utah in a little town. And my parents still to this day don't understand what it means to be a Ph.D. But they certainly understand what it means to be a CPA.

And my father always told me: Steve, whatever you do, represent that CPA profession well because that's a great profession.

Early in my career I made two commitments.

One commitment was that I was going to be the best professor -- I was going to do everything I could possible to be the best professor I could be.

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And, secondly, I was never going to turn down an opportunity to serve.

A wise person once told me that service is the rent we pay for the opportunities we receive in life. So I've tried to serve wherever I can.

The result of those two commitments has been a life that has been very busy as you might imagine. It's meant getting up early in the morning, sometimes at two or three o'clock in the morning to finish a project because I'm overextended.

But it also has meant that I placed a very heavy burden upon my wife. We have six children and I couldn't do what I've done without somebody that was totally dependable and somebody I had great faith in to raise our children probably without nearly as much help from me as she should have had.

I have a wonderful wife and pay tribute to her today.

I have the best career of anyone. There is no better career than being a college professor, being a CPA and teaching

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accounting.

I love teaching. Professors do three things. They teach - I love teaching, I love interacting with bright young students. It's invigorating and challenging and it's extremely rewarding. Hardly a week goes by that I don't get an e-mail or a letter from a former student who thanks me for the influence that I had in his or her life. And that's extremely meaningful for me.

I love teaching.

I also love research. I didn't know much about research when I got into this, but I found doing research and writing to be extremely rewarding and have enjoyed it very much.

And in service, that's where I've made many, many friends, including people like Bea Sanders from the AICPA who I hold dear and who has been a wonderful friend and colleague. And other people, many in this audience: Karen Pincus and other people like that. I've just had wonderful experiences.

People think sometimes you make a sacrifice to serve. But for me it's a great way

2 to earn friends and to develop relationships that  
3 are extremely meaningful throughout life.

4 I look back and see how I got to  
5 this point in my life, and it's just a series of  
6 fortuitous accidents really.

7 As I said, I grew up in a little  
8 town in southern Utah. None of my brothers and  
9 sisters went to college. My parents hadn't gone  
10 to college. And I happened to have a couple of  
11 really good close friends who went to college.  
12 And because they went, I went with them.

13 (Laughter.)

14 DR. W. STEVE ALBRECHT: And so  
15 if it wouldn't have been for my friends, I would  
16 never have gone to college in the first place.

17 And then because one of them  
18 took an accounting class, I decided to take it  
19 with him.

20 (Laughter.)

21 DR. W. STEVE ALBRECHT: And it  
22 was sort of a whim.

23 And the professor -- I happened  
24 to do quite well in the course. The professor  
25 gave me an A+. I've never received another A+.

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(Laughter.)

DR. W. STEVE ALBRECHT: But I figured if I could get an A+, I'd better major in it.

So I majored in accounting, graduated, went to work for Touche Ross in Salt Lake City back then. And married a girl from Wisconsin who I met at the University. And she was homesick. So we decided -- she wanted to move back to Wisconsin. I wanted to stay in Utah. So we decided that, well, we would go back and visit her family and we would just stop by the University of Wisconsin and maybe check into their MBA program.

Well, it turns out that as I was visiting the University of Wisconsin, there happened to be a professor in the hall by the name of Jim Bowers. Jim Bowers met me, took the time to talk to me.

And that's all it really takes in life is one good mentor and person to help you.

And he said: look, let me call BYU. He called them on the phone and they



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validated the grades I told him.

He said: why don't you come. If you show up here next week, I'll give you a teaching assistantship and a scholarship and you can get into our MBA program.

And so I did. I went home and settled everything, and a week later was at Wisconsin. Never to this date have applied to graduate school.

(Laughter.)

DR. W. STEVE ALBRECHT: Then when I got there, he met me and he said: Steve, why -- have you ever thought about a Ph.D?

And I said: What's a Ph.D.?

He said: well, it's a good thing.

So he said: why don't you -- I said I want to get a MBA.

He said: Why don't you finish your MBA requirements with Ph.D. courses. Instead of MBA statistics, take the Ph.D. statistics.

So I did and three years later I graduated from the University of Wisconsin with a Ph.D. and an MBA.

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And I still planned on going  
back into public accounting.

And then when I graduated  
initially with my Bachelor's degree, I applied to  
law school. I thought I might want to be a  
lawyer. I've thought better since.

(Laughter.)

DR. W. STEVE ALBRECHT: I  
applied to Northwestern, Harvard and the  
University of Utah. I got accepted in  
Northwestern and Utah, but not Harvard.

And so I thought: well, geez,  
I'll at least apply to some of these schools and  
see if they'll accept me to be a professor.

So I applied to Harvard and  
Stanford and some really good schools and they  
all accepted me. They all offered me a job.

And I thought: You know, I think  
I'll go to Harvard just because they turned me  
down in law school.

(Laughter.)

DR. W. STEVE ALBRECHT: It turns  
out that I didn't go to Harvard. We stayed in  
Illinois. It's a great school. It's close to my

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wife's home. And then I ended up going to Stanford and then to BYU.

Had a wonderful, wonderful career. But as a matter of fact, it's just this series of chance accidents.

In terms of my research, earlier on KPMG was offering something called the research opportunities in auditing. Bob Elliott had a lot to do with that. And I applied for one of their grants.

And they gave me that. It happened to be a research grant on fraud. So I developed over the years a lot of interest and have done a lot of research in the area of fraud, fraud prevention, detection and investigation.

It's been a wonderful career.

Now I have the opportunity to consult with the FBI and to be an expert witness and to do research. It's just been a marvelous career, this CPA/Ph.D. combination that I have.

So I am just very grateful to be here. I can't tell you how excited I am to get this award. It's a recognition of my colleagues in academia and my professional colleagues. And

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it means a lot to me.

Also I will tell you that I'm very thrilled to be on Council. This is only my second meeting. And I appreciate this opportunity.

This is not a time to be timid as Council Members. I've never seen quite so many challenges facing the profession.

We are at a crossroads. We are at a crossroads in terms of attracting bright and smart young students into the profession. We are not attracting enough.

And I am very pleased to see the kind of programs we have here that the AICPA is initiating.

We are at a crossroads in terms of leveraging technology. And I'm happy to see the cpa2biz and some of the things that we are doing there.

We are at a crossroads in terms of leveraging globalization.

And I'll tell you what. As you look around this economy and this business community, those professionals who are being paid

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2 the premium dollars are those who figured out how  
3 to leverage technology and globalization.

4 Today I have to leave  
5 immediately after this award - and that's why  
6 they pushed it up - because I'm going to Peru  
7 today. And I hope they don't shoot another plane  
8 out of the sky.

9 (Laughter.)

10 DR. W. STEVE ALBRECHT: If I  
11 were here tomorrow, I can tell you that I would  
12 vote for the initiative because we've got to  
13 figure out how to leverage globalization and  
14 technology.

15 So I just feel badly that I'm  
16 not going to be here to vote.

17 Well, I don't want to take a lot  
18 of time. I just want to tell you how much this  
19 award means to me and how I look forward to  
20 serving with you, and hopefully over the next  
21 couple of years can develop a lot of friendships.

22 Thanks again for this award.  
23 It's extremely meaningful to me.

24 And, as I said, more people are  
25 probably more deserving than I am, but I accept

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it.

And thank you very much.

(Applause.)

CHAIRPERSON EDDY:

Congratulations, again, Steve.

Your story is a great one and it's absolutely easy to see why you receive such high marks from your students and your fellow educators.

And, again, we appreciate your unbelievable hard work on behalf of this profession.

I now have the opportunity to introduce William (Bill) Holder, Chair of the Computerization Implementation Committee.

Bill and a lot of other dedicated people have been working under a great deal of pressure to conclude the contractual arrangements for the AICPA to begin to implement the computerization of the Uniform CPA Examination.

Bill will give us a brief update on the most recent developments and where they see us headed with respect to this issue.

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Bill.

(Applause.)

MR. WILLIAM HOLDER: Good morning, everyone.

I'm delighted to be here to provide this report on behalf of the Computerization Implementation Committee.

As Kathy indicated, a lot of people, not just Committee Members, but staff of both NASBA and the AICPA have been hard at work on this particular project.

The project began several years ago and has constantly adhered to our CPA Examination basic mission statement, and that is, that the purpose of the CPA Exam is and should be and continues to be the protection of the public interest; that is, the licensure examination should admit individuals to the profession only after they've demonstrated the entry level knowledge and skills necessary to protect the public interest in a rapidly changing business and financial environment.

The rapidly changing business and financial environment I think can be depicted

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as you see on the screen. We have come to believe that the demands on entry level practice are substantially different today than they had been in the past.

And the one immutable object in an ever-changing universe has tended to be the Uniform CPA Exam. It has been and continues to be basically a test of memorization, that is, the candidate's ability to command knowledge at a particular point in time.

And at times in the past I think that was a particularly appropriate method of examining candidates.

As you can see on the graph, yesterday, the blue part of the pie that we've depicted there, represents institutional knowledge and the command of that knowledge. And it was much easier to accomplish that because of the smaller amount of knowledge that was subject to examination, that was necessary to protect the public through the practice of accounting.

You'll notice that while it has always been the case that technology, communication skills, research and analytical



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capabilities were part of the puzzle, part of the pie, they represented a non-preponderant part of that mix in years gone by.

Today, we think that the pie not only has changed in the configuration of slices, but has also changed in its size.

I think few would dispute that the knowledge one must command in some way or another today has expanded probably exponentially, certainly geometrically.

In addition to that, the demands on practitioners to be competent in the area of technology, to have strong analytical skills, to be able to communicate very, very effectively; ours is probably one of a very few if not the only profession in which the communication obligations that devolve on us are almost one way in a great many respects.

If you take financial statements in particular or filing documents in general that are published with the SEC, the literally millions of people that rely on those documents have little, if any, opportunity to interact personally with the preparers of those documents

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or the attestors to of portions of those documents.

So the information conveyed therein is of great importance, and it's of great importance that that information be unequivocal, complete, succinct and accurate.

The ability to communicate effectively on the part of CPAs I think has grown tremendously since the inception of our profession some sixty or seventy years ago when the examination was first put in place.

In addition to that, the ability to perform research. As I've said earlier, the pie has grown and the part of that pie that relates to institutional knowledge has increased substantially.

I doubt that anyone can command all of the knowledge necessary to practice competently today at one moment in time.

One of the greatest skills that I think a practitioner can have, at least as it relates to protecting the public, is the ability to find answers to questions, to develop reasonable responses to issues that arise in

2 practice, and not to possess them as a matter of  
3 instant memorization or knowledge capacity.

4 So this graph depicts not only  
5 how the skill set that is demanded has changed in  
6 importance, but also how each of them has grown  
7 relative to what may have existed in the past.

8 Each of these factors we believe  
9 calls into question the continued propriety of an  
10 examination that is basically a command of  
11 knowledge examination because the other skill  
12 sets have increased so much.

13 This is not to indict the  
14 current examination. We believe it fulfills its  
15 mission. But we believe that it becomes more and  
16 more important as time passes to recognize these  
17 changes and to give them life on a freshened CPA  
18 examination.

19 If you look at yesterday's  
20 professional standards, I know just the ones I  
21 keep on a credenza - I'm kind of an old guy so I  
22 do keep it in printed form still, unlike my  
23 students - but the ones I have to worry about  
24 take up about ten linear feet, and they do not  
25 include such things as taxation and, in general,

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management services and consulting services and  
so on.

If you look at today's  
professional standards, you see they're on CDs,  
they're carried to field in their entirety in the  
palm of one's hand. Access to them is easier.  
Access to them is constant, pervasive.

The way we practice I think has  
changed and changed dramatically simply because  
of the effect and the powers that technology has  
handed to the practitioner.

Our exam tests really very  
little of that today.

I would like to speak with you  
for a moment about the mechanics of how a revised  
CPA Examination is expected to take place, how a  
computerized CPA Examination will really be  
administered.

And, of course, the focus of  
this starts with the candidate. In the slide the  
lady that is studying there will apply to her  
State Board of Accountancy as has always been the  
case for credentialing and for determining that  
she has an acceptable profile to qualify for

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sitting for the Examination - that the educational requirements are met, if other requirements are met for licensing other than the examination.

The State Board then, as has been the case in the past, will notify the candidate in this case of her acceptability to sit for the examination and will also notify an organization called Prometric. I will speak further about them later. Prometric, as we envision it, will be the entity that administers the examination on site in the field and Prometric will be informed of this person's candidacy and her authorization to sit for the examination.

While preparing for the examination, she will have access to tutorials that will be provided certainly on the web sites of the AICPA, hopefully those of NASBA, State Boards of Accountancy and State CPA Societies as well. So that she can become familiar with the mechanics of sitting for this particular examination. So that when she appears at a Prometric examination site there won't be any

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confusion, there won't be any unfamiliarity with the structure and methods used to access information and to take the examination.

In addition, she will correspond with Prometric to arrange a time to take the examination by appointment.

While we would like to characterize this examination as an on-demand examination, that is not fair. Some day it may come to pass that it literally becomes takeable on demand. But right now it will be takeable by appointment.

However, the enhanced convenience for the candidate and for the candidate's employer I think are apparent.

She will have much greater ability to take the examination at a time and a place that is more convenient for her and her schedule.

She will be able to travel less, incur fewer transportation and lodging and meal costs and to take the examination at a time that more conveniently fits her schedule through this particular arrangement.

1  
2                   Once she arrives at the testing  
3 center -- and one is depicted here. It will be a  
4 relatively small center, certainly in relation to  
5 some of the very large venues that we see with  
6 today's paper and pencil examination that is  
7 offered only twice a year.

#### 8                   The Computerization

9                   Implementation Committee has toured a testing  
10 center. Many State Boards I understand also have  
11 passed through them or will be touring them in  
12 the future.

13                   The agreement that we have with  
14 Prometric has a large number - that the AICPA has  
15 with Prometric - has a large number of  
16 performance metrics that are included in that  
17 agreement, many of which relate to security at  
18 the examination site.

19                   While there are a great number  
20 of changes in security considerations that will  
21 take place, we believe that a computerization  
22 exam properly administered can become a much more  
23 secure endeavor than the current paper and pencil  
24 examination.

25                   But as you can see here, corrals

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are provided for each candidate. The dividing partitions between the corrals extend so that candidates would have very great difficulty communicating with each other. These, of course, are security features.

Another feature of the sites that you can just barely see at the top are parabolic mirrors. There are also microphones in the testing center itself so that any conversations that begin to occur will be detected.

There are also a great many cameras that exist there and the Prometric staff has windows through which they observe the candidate taking an examination as well as physically passing through the aisles of the candidates taking the examination.

So this gives you a flavor at least of the physical experience of the candidates taking the examination.

The candidate will sit at a computer screen. The candidate will access the examination while sitting there.

The examination will extend to



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testing research capabilities as I mentioned earlier.

The candidate will be able to access the relevant professional literature, the database that is provided, through a controlled database. There will be no ability of the candidate to communicate externally with anyone outside of the testing center. The computers there are hooked up to nothing other than the server in the testing center.

And so all of the materials, to which they will access to perform research, will be contained within this controlled and isolated system at each of the centers.

So that may give you some flavor as to how the examination will be administered.

Once the candidate has taken the examination, test scores, at least as it relates to the multiple choice, the objective graded portion of the exam, can be developed instantly, but that will not be conveyed to the candidate, at least at that moment.

The State Boards of Accountancy will continue to have the responsibility and the

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authority to make the ultimate pass/fail decision and to communicate the results of that decision with the candidate. So there will be no intervention at that point by Prometric or by the AICPA.

We do believe that there will be a tremendous shortening of the waiting period between the administration of an examination and the communication of the result of the examination of individual candidates. We believe that that can be diminished from several months, as it is now, to a matter of weeks at the most. And we believe that time frame can be shortened as greater experience is had with the examination itself.

But that, again, will remain a responsibility of the State Boards to communicate. The AICPA will be involved with the grading as generally is the case today.

If one looks at the imperatives that we believe exist, we must make sure that the examination keeps pace with changes in practice. There are new services. There are new competencies that require testing in order to

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protect the public interest, in order to allow no interruption of the protection of the public interest.

Our candidates can enter the profession in a timely fashion.

A couple of words here.

There is no intent on the part of the CIC or anyone else I've ever spoken with to try to make this a more demanding examination or a diminished pass rate or to make it an exhaustive process. Nor is there any intention to diminish its rigor and its level of difficulty.

There are psychometric procedures that exist that are used today and will continue to be used and used in a more sophisticated fashion as that art form progresses that will determine which candidates possess the minimum knowledge and skills to enter the profession.

And so computerization is not intended to have per se any effect on pass rate. It is designed by and large to - it's got a lot of secondary benefits, but the primary purpose is to continue to protect the public by testing a

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broader range of knowledge and skills.

But there is no intent to change its rigor.

And, in fact, what a passing score will be will be a function of psychometric methods coupled with practitioner knowledge and judgment in the future, just really as it has been in the past.

What do we need for a new examination?

Well, there are a number of things.

We need the ability to test a recall of foundational knowledge. I have indicated that in the past that's about all of the exam. And I don't mean to denigrate it. But that's really all the exam has tested is your knowledge of institutional or foundational information.

But in addition to that, we believe it's of crucial importance to test analytical skills, the ability to integrate information, to take practice problems that a practitioner may confront and to be able to

1  
2 address and resolve those issues in an acceptable  
3 fashion.

4 We also believe that it has  
5 become more and more important, essential if you  
6 will, that a candidate demonstrate the ability to  
7 find information, to find answers to issues and  
8 problems that arise.

9 We also believe that it's  
10 important to have detailed study aids available.

11 I mentioned one type of aid, the  
12 tutorials and so on, and preparational material.

13 In addition to this, we need  
14 robust diagnostics for unsuccessful candidates so  
15 they can learn what areas of the examination they  
16 didn't have adequate knowledge and skill in, and,  
17 therefore, be able to direct their study to  
18 prepare for retaking the examination, hopefully  
19 successfully.

20 In terms of logistics,  
21 candidates will have real-time access to  
22 authoritative literature. This will extend to the  
23 financial reporting and attestation and assurance  
24 standards, the auditing standards. It will also  
25 extend to taxation and other elements of the

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authoritative literature.

They will be using current technological tools. This may extend to spreadsheets certainly and obviously such tools as word processing and so on.

There will be secure administrative conditions available and all year-round testing.

And there will be a secured computerized delivery system. Those are imperatives we believe that exist.

A few words about the structure and content of the proposed examination. And here I would part a bit from the hat of the Chairman of the Computerization Implementation Committee to talk with you about some recommendations that have been made by originally the Content Oversight Task Force and more recently in a proposal by the Board of Examiners related to changing structure and content.

There is an exposure draft that exists today produced by the BOE that proposes to change the examination structure and content.

And the CIC is well aware of

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these proposals and we are weaving our deliberations around them.

However, it is an exposure draft and I solicit your responses to that exposure draft.

What is proposed are four independent sections: accounting and reporting, auditing and other assurance services, business environment and concepts and regulation.

The Exam is being changed a good bit in terms of where things are tested, and unless you have specific questions at the conclusion of my presentation, I don't plan to drill down into that. But I'll be happy to respond if you would like.

But you can see that there is a general broadening of information on the Exam as well as a reorganization of where specific elements of the traditional Exam content will be tested.

We recommend four sections.

In briefing paper No. 2, which was provided to you, I believe, as part of the mailings and materials you received for this

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meeting, we indicate that such an examination we would expect to take between ten and fourteen hours of computer time.

We put twelve hours here as an average of that.

What we want to do, and this is quite important, is to give an exam that has adequate, sufficient psychometric reliability and validity in the least time that we can.

One of the major cost drivers of a computerized examination is the amount of time that individual candidates sit before a computer screen. And if one can reduce that time, one can save substantial dollars.

So consonant with the rigor and difficulty that we expect in the exam, its role in protecting the public and the validity of the exam and the reliability of pass/fail decisions, we would like to have as short an exam as is reasonably possible.

And there are some sophisticated psychometric tools that can be brought to bear on this particular issue.

And while again today isn't the



2 day to drill down into those and try to explain  
3 them to you, because sometimes I'm only learning  
4 them myself, but I would strongly encourage you  
5 as our group comes forward with recommendations  
6 as to time, be aware that one of the variables  
7 that affects our judgment of how long the  
8 examination should be is cost.

9 Also be aware that other  
10 variables include the validity of the examination  
11 and the reliability of the examination. We will  
12 not propose an examination that in our judgment  
13 diminishes the validity of the examination nor  
14 the reliability of the pass/fail decision.

15 However, we will be attentive to  
16 ways and methods in which we can shorten the  
17 examination consonant with the imperatives of  
18 quality in order to save candidate dollars  
19 basically.

20 I would urge you to give  
21 proposals that we bring forward of this type that  
22 have their roots in psychometric concepts and  
23 practices an open mind and a fair hearing. Some  
24 of them are rather sophisticated. Some of them,  
25 when you begin to hear them, at least it has been

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my experience, seem somewhat counterintuitive as if that makes no sense at all. But as you begin to understand the psychometric processes and concepts that are being brought into play, the techniques become eminently more reasonable and understandable and do have a potential to save considerable dollars.

You can see that if we went to three sections, we could probably reduce the time that's involved. And if we went to two sections, we could reduce the time even further.

And so if one considers the cost of a computerized exam, which we believe will exceed the cost of the paper and pencil examination, a couple of things come into play.

Number one, we urge you not to compare the cost that you may hear of a computerized examination - and some of that information is presented in this briefing paper on page eighteen and nineteen, if I recall correctly, we urge you not to simply look at those numbers and compare them with the cost of the examination as it exists today because the examination that we envision is going to be far

2 more robust in testing the knowledge and skills  
3 that are necessary to protect the public  
4 interest.

5 Consider for a moment, if you  
6 would, the cost, for example, of attempting to  
7 test research capability in a paper and pencil  
8 environment. One would have to buy -- and if one  
9 bought all of the professional standards that  
10 will fit on a CD or be available here, literally  
11 linear feet of literature to provide to the  
12 candidate.

13 That information would either  
14 have to be purged after each examination or  
15 someone would need to look at each page to be  
16 sure notes and crib sheets aren't included in it,  
17 or all new books would have to be bought.

18 Obviously, I think I think the  
19 infeasibility, the financial infeasibility of  
20 providing that kind of a research component short  
21 of using the advantages of technology and  
22 computerization, would simply be prohibitive and  
23 we would be unable to test that particular  
24 component, of a skill that I believe at least is  
25 necessary to protect the public interest.

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But you do have options. And the proposals in the structure and content document produced by the BOE solicit your feedback.

And while cost I don't think can be the driving force, it is an important consideration in such things as how many sections will there be.

The proposed four sections are, that I mentioned earlier, are designed to provide State Boards of Accountancy independent observations of candidate knowledge in those four areas.

If you don't believe those four areas require independent knowledge on the part of State Boards of candidate competency, then you can consolidate the number of sections without doing any irreparable harm to the examination.

But if you want to know does the candidate know a sufficient amount about financial reporting or does the candidate know a sufficient amount about auditing, then you need sections for those in which independent grading observations are possible as a general matter.

Having separate sections

2 eliminates the issue of whether a candidate's  
3 abundance of knowledge in one area, for example,  
4 taxation, could compensate for a virtual absence  
5 of knowledge in another area, for example,  
6 auditing standards.

7 And so these are matters of  
8 professional judgment that the BOE and the  
9 Content Oversight Task Force have considered and  
10 are putting before you in that exposure draft.

11 Your attention to that is really  
12 solicited and we can benefit much from your  
13 thinking.

14 The examination format that we  
15 see will involve a variety of objective  
16 questions; for example, multiple choice  
17 questions, short answers, what today we call  
18 OOFs, which are Other Objective Formats. There  
19 are a number of things we can do creatively. And  
20 some of those can be devoted to research issues.

21 But, in addition to the various  
22 types of objective questions with which you are  
23 probably familiar with now - if you're a CPA,  
24 you're certainly familiar with them, you took  
25 that examination just as we all did I think -

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but, in addition to that, we propose a new type of examination question.

We call them simulations.

Basically they are designed to replicate some of the demanding aspects of practice in a testing situation that heretofore just hasn't been possible because of the limitations of technology.

Basically we want to be able to test integrative knowledge. We want to more closely replicate the real world and the environment that it poses as candidates are tested.

And we very clearly want to assess the research capabilities, their communications capability and their analytical skills in ways that replicate the actual demands of practice.

I promised to tell you a little bit more about Prometric.

They are a company of the Thomson Learning Group. They are a leading provider of computer-based testing services. They administer some 4.5 million tests per year. They

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have at this time three hundred test centers around the United States and they expect to have more when this examination comes on line. And they have an established network of sites.

They also have a track record of quality administration of an examination.

You can see here some of the organizations that they serve. They have successful partnerships with over two hundred clients for whom they offer reliable testing services. And we believe that ETS is a particularly important one of those.

They administer the examination for the National Association of Security Dealers. They also -- interesting anecdote here.

We went to one of their call centers where they receive calls from people that are trying to schedule examination times and when can I sit for the NASD exam, when can I sit for the GRE, the Graduate Record Exam.

And they have all kinds of statistics on a variety of things. But one of them that caught my eye was the abandonment time. And that's when a candidate calls and doesn't get

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a human being on the line and gives up, just hangs up and goes away.

And for graduate students the abandonment time that want to take -- prospective graduate students who want to take a graduate examination to qualify for graduate school, unlike Steve, that aren't as attractive as Steve was when he walked in the door, the abandonment time for those guys if they don't get a Prometric person on the line is somewhere around ten minutes.

But for the NASD candidates, the stock brokers, the abandonment time was a little over ten seconds.

You get some insight into the folks they are testing.

It's important to understand that the agreement that is being negotiated with Prometric will have all kinds of performance metrics in it that require response times to be no longer than a particular duration.

There are also substantial penalties that exist in that agreement if Prometric fails to meet some of their commitments



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in the performance metrics.

The architects had an unfortunate experience when they went to computerization. Depicted here are the number of candidates that took the architect examination before it was computerized and then what happened thereafter.

And you can see that's a pretty alarming picture. There was a substantial diminution in the number of candidates that took the architecture examination.

We are aware of those circumstances. We are informed by them and by the methods, processes and procedures that the architects employed in computerizing their examination.

And there are a number of pitfalls that we have identified that we hope to avoid so that we don't have this same experience that is depicted here on the slide you're viewing.

However, we do have some risks.

And among our risks are ones that Steve alluded to earlier. We have a

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declining supply of students majoring in  
accounting around the country.

I got a hopeful note from my own  
dean just the other day that our enrollments have  
rebounded from the fall and I'm sure we'll be  
exploring why that's happened and whether that is  
the start of a desirable trend.

But I think it's fair to say at  
this time we have a declining supply of  
candidates generally.

There may be changes in  
candidate behavior. One of the things that  
happened with the architects, and that we want to  
try to avoid ourselves, is when you have only  
twice a year to take the examination and there's  
sort of an accepted deadline and all of your  
colleagues in classes are signing up for the  
examination as they near the completion of their  
academic process, you know, it's harder to  
procrastinate I guess.

But when the duty devolves on  
you to actually call Prometric once you have been  
authorized to sit for the exam and to arrange a  
time to go take the exam and you have the ability

2 to cancel out and to modify it and to extend it,  
3 we feel there may be some inclination on the part  
4 of candidates to defer taking the examination  
5 beyond the time that they now do.

6 And, again, there are a variety  
7 of issues that are in play to try to prevent  
8 that, mostly candidate education and working  
9 through the educational institutions as well as  
10 practitioner organizations to encourage  
11 candidates to take the exam promptly upon  
12 completing their academic experience.

13 Cost drives the project. We have  
14 to keep cost under control. We are very aware of  
15 the sensitivity of this, particularly to  
16 candidates, and are working hard to try to get at  
17 the most efficient examination that we can. But  
18 cost will rise inevitably. That is our belief.

19 And, again, you can get some  
20 insights into the particulars of those on pages  
21 eighteen and nineteen of our briefing paper.

22 And there is the difficulty of  
23 finding members to write and pretest questions.

24 One of our biggest bottlenecks  
25 is, because we are going to offer the examination

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so many additional times, we need a larger database to support that.

You can't just write questions and put them on the examination. Those questions have to be pretested. We have to learn how they perform in order to put them on an actual examination.

And the way that's been done in the past is by putting pretest questions -- at least principally in the past, by putting pretest questions on actual examinations. Those are questions that would not form part of a candidate's grade, but that the pool of candidates would take.

And so we have sort of this bottleneck of the current exam that limits the number of pretest questions we can put on each one and we are developing ways to pretest questions in a psychometrically valid fashion other than presenting them on an existing CPA examination before they appear.

But this is something that we need to manage and be sure that we have a sufficient database of questions at the time we

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launch the examination.

Getting from here to there, we believe that May 2003 will be the last paper administration. Certainly that is our target. We are holding to that. We see nothing in the environment now that will prevent us from reaching this.

Certainly there are risks and there are items and issues that could stall the development process and could impede our ability to meet our November 2003 computerized examination start.

We will continue to evaluate the reasonableness of semi-annually and we may have more frequent times if events occur that merit that consideration.

But we are cognizant of the complexity of the process. We believe we have an extraordinary staff in place through the AICPA and NASBA to assist us.

As a Committee, we are one of the most staff-reliant committees that I've ever had anything to do with. The scope of work here and effort that's involved is really tremendous

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and we are blessed as a Committee at least with just a wonderful, capable, competent, energetic staff.

What questions have you?

(Laughter and applause.)

MR. WILLIAM HOLDER: You may be making your way to the coffee, but if you have questions, I'll be happy to answer them.

While that's happening, let me just add one personal observation.

It has been a privilege to chair this group for a number of years. I believe this that is a most worthy project.

We need your advice. We need your input. We need information from you.

Read this stuff, this briefing paper, read the other materials that are forthcoming from the BOE and give us your thoughts because without that we are certainly diminished in our ability to make and produce the best examination we can.

Yes, ma'am.

COUNCIL MEMBER GINNY STANLEY:  
Bill, Ginny Stanley, New Mexico.

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Much has been said and written about the choice of Prometric.

Could you please address why that choice was made and how that choice was made?

MR. WILLIAM HOLDER: Yes, I will.

And I'm going to defer that a bit because I think that -- Barry, if I can call on you when you make your comments to perhaps respond to her observation.

My focus and the Committee's focus in producing this examination has been on the process of producing the examination, not on the vendor selection. And so I don't have as much information as others do about the -- I don't know, the detailed aspects of that particular process.

But -- and the last thing that the world needs right now is more misinformation mixed into the stew.

I will say that there was -- that there was a competitive process. There was an RFP prepared. I am aware generally of the

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rigor of that process. What the decision basis was, at least in my impression, was purely based on the merits of those that made proposals.

Prometric, I think -- and I've heard many psychometricians and others say that they are the best in the industry at this particular point.

They have more experience with this type of testing than anyone else, that generally is of a stature and of a resource capability of administering the examination.

I know there are other aspects of that question that bear an answer, but, Ginny, I'm just going to beg off because I'm probably not the guy that was there to negotiate the thing and we will get that information to Council.

Fair statement?

PRESIDENT MELANCON: Yes.

MR. WILLIAM HOLDER: Yes.

COUNCIL MEMBER LUCRETIA MATTSON:  
Lucretia Mattson from Wisconsin.

How will you handle the conditioning candidates from a previous exam?

MR. WILLIAM HOLDER: Great



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question.

In the briefing paper there is a section that is given over to that. And this gives me an opportunity to mention a couple of our operating policies.

When we have a decision to make like conditioning or other similar decisions, we will generally form a task force. And represented among the task force will be people that are appropriate to the goals of that task force.

And here we've had such a task force that has addressed this.

And basically candidates will not lose any credit they have at the time of transition.

There are a whole bunch of issues that are impounded into your question really. But if a candidate has credit in a couple of areas of the examination, they will not lose credit for two parts of the examination.

Now, it could be that they are asked to take an examination -- I guess the best thing I can do is give an illustration here.

Today we have an examination

1  
2 called ARE, Accounting and Reporting. And on that  
3 examination is taxation, governmental accounting  
4 and financial reporting and cost managerial,  
5 generally.

6 In the new content and structure  
7 that is proposed, governmental financial  
8 reporting will go into financial accounting and  
9 reporting.

10 Taxation will go into  
11 regulation.

12 Cost managerial will go into the  
13 more broad business consulting examination.

14 So if a candidate has credit for  
15 ARE, the thought is they will continue to get  
16 credit for an examination part, in this case it's  
17 going to be regulations, and then taxation is  
18 going to be tested.

19 But they still might have to  
20 take a financial reporting examination and be  
21 subjected to some questions that relate to, say,  
22 governmental financial reporting which appeared  
23 on an old part they passed.

24 So the fit, if you will, isn't  
25 perfect. But we have developed and proposed in

2 briefing paper number two, you know, what  
3 conditional credits on a given examination should  
4 correspond to a new content and structure that is  
5 being proposed.

6 A couple of other aspects of  
7 your question.

8 There is a whole question about  
9 whether conditioning should continue. And clearly  
10 if you have the ability to schedule and take the  
11 examination at more frequent intervals, some of  
12 the conditioning features that we've had in the  
13 past probably don't make a lot of sense. And  
14 those need to be considered.

15 And our transition task force is  
16 considering those. Some information about that is  
17 provided in the briefing paper. More will be  
18 forthcoming.

19 Please. Yes, sir.

20 COUNCIL MEMBER LARRY GRAMLING:

21 Larry Gramling, Connecticut.

22 I noticed in the briefing paper  
23 there is a long list of all these test sites.

24 Is there going to be a one-to-  
25 one control of the test sites by the individual

1  
2 State Boards? So, for example, in Connecticut  
3 there are three sites in Connecticut. Would they  
4 only be concerned with the people that are  
5 meeting the Connecticut State requirements for  
6 exams? Has that been addressed?

7 And then I have a second  
8 question.

9 MR. WILLIAM HOLDER: Okay.

10 Let me try to answer that one  
11 and probe further if I don't.

12 The issue that you raise also  
13 has a number of facets.

14 Compounding that is a  
15 recognition that NASBA and the State Boards of  
16 Accountancy need to be more closely involved  
17 with Prometric in the formulation of policies and  
18 procedures and contractual arrangements.

19 And so we are in something of a  
20 state of flux administratively about the answers  
21 to your questions.

22 But I believe that it's fair to  
23 say that NASBA and the State Boards of  
24 Accountancy will have a very direct and perhaps,  
25 and I would suspect, a contractual relationship

2 with Prometric that governs issues such as those.  
3 And, you know, whatever NASBA and the State  
4 Boards want will be done.

5                   However, there are a lot of  
6 subtleties that surround the issue as well. If  
7 somebody is going to be in Connecticut from,  
8 well, let's say California, and wants to take the  
9 examination back there and it's a uniform  
10 examination, we would hope that that would be  
11 possible.

12                   If someone is doing a residency  
13 somewhere and wants to take the examination  
14 conveniently there and not travel back to their  
15 home state, we want that to be possible. And we  
16 think it can be.

17                   But there are various concerns  
18 and limitations that State Boards may have about  
19 candidates sitting in their geographic  
20 jurisdictions.

21                   But I assure you that we are a  
22 joint committee. Half of our committee members  
23 are people representing NASBA.

24                   I know that NASBA doesn't  
25 represent any one State Board necessarily, but

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those concerns, we are aware of them. We are addressing them. In six months we will probably have a much clearer understanding of what those relationships will be and where various powers and authorities and responsibilities will reside.

But the hope of the CIC I think it's fair to say is that candidates will have extraordinary flexibility in taking the examination wherever it is most convenient to them at whatever time is most convenient to them, consonant with the concerns of State Boards for controlling what goes on within their geographic jurisdiction.

COUNCIL MEMBER LARRY GRAMLING:

Thank you.

The other question I had concerns the length of the exam.

Often times in this profession we sort of chartered our path for the future based on where we've been. And sometimes that's good and we may find out tomorrow that it's not.

My question concerns the length of time that each section is going to be tested. Is this one of the questions that the

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psychometricians are looking at?

And I've read the briefing paper in detail and I encourage everyone else here to read it as well because I think there's a lot of things that go way beyond just our own ability to grasp all of these things.

But I think there's a lot of good information in this briefing paper that we all need to be aware of.

Is that question of is two hours at a time, is three hours at a time, is that being addressed?

MR. WILLIAM HOLDER: By psychometricians, absolutely.

Psychometricians -- there are, I guess, a few instances in which a psychometrician will simply say that's unacceptable, you just can't do that.

There's lots of other circumstances that say if you -- where they will say to you if you do that, here are the implications, here are the kinds of considerations, and it's a professional judgment call on the part of the exam provider.

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But in direct answer to your question, in terms of the time of the examination, absolutely they are.

And as I said, I don't want to tease you here, but we are beginning to explore, because of the cost sensitivity of this, we are beginning to explore, and our psychometricians are at work at this time on ways to diminish the time at which one would sit in front of a computer.

Now, let me be very clear. We are committed to a fixed length examination. Every candidate will have the same amount of time.

But there are psychometric methods that may be used to diminish that fixed length of time that everybody has to take the examination. And to the extent those are valid and that they have face validity, that is, people situated such as yourselves can come to the conclusion, yes, this is an acceptable course of action, then perhaps we will be able to reduce the amount of time overall and thereby save substantial candidate monies at least in the



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aggregate.

But the psychometricians are engaged in this. Absolutely.

I think I can assure you we will never propose anything that the psychometricians say is unacceptable.

Other questions?

(No response.)

MR. WILLIAM HOLDER: Thank you very. I enjoyed being here.

(Applause.)

CHAIRPERSON EDDY: Bill, thank you. I know the challenge that you and your Committee Members are facing completing this very complex task.

I want to thank you for your perseverance, your dedication and your patience in keeping this project on track.

As we attempt to show young people how progressive the CPA profession is, and how we have used technology to deliver a "best in breed" examination, your efforts and your Committee's efforts, Bill, will be appreciated not only by this audience, but by the entire

1  
2 profession and the young people we are trying to  
3 attract into this profession.

4 Thank you again.

5 We are now ready to turn to  
6 agenda item No. 6, the President's Report.

7 It is my pleasure to introduce  
8 Barry Melancon, President and CEO of the AICPA.

9 I've worked with Barry since  
10 long before he joined the AICPA. We are extremely  
11 fortunate to have such a talented and dedicated  
12 Chief Executive Officer.

13 Barry has been called upon to  
14 manage an extremely complex set of issues while  
15 simultaneously directing our Institute's daily  
16 activities. He has done so with grace and under  
17 great pressure.

18 Recent events in our profession  
19 would have tested the skills of any chief  
20 executive officer, but Barry has lived up to that  
21 challenge.

22 Here is our dedicated CEO, Barry  
23 Melancon.

24 (Applause.)

25 PRESIDENT MELANCON: Thank you

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very much, Kathy, for those kind words.

At the beginning of my remarks I have to take a few moments to make some comments about Kathy, however, and they are very positive comments as you might imagine.

I don't know that all of you really recognize from a volunteer perspective the difficult times that Kathy was just referencing, what it means from the standpoint of a chief volunteer.

First off, I think that Kathy comes from the smallest public accounting firm ever to have a partner in their firm serve as Chair of the Institute. If it's not the smallest, and there might be a couple of people in this room who might argue on that point, but it's certainly one of the two or three smallest in the history of the AICPA.

I will also tell you that since she took office in October in Las Vegas, there has been exactly one week in which we have not asked her to fly out of West Virginia someplace in this great country to do work for this profession, this Institute.

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And the only reason why there is one week on that agenda is because we cancelled a meeting that we had asked her to attend.

(Laughter.)

PRESIDENT MELANCON: So it has been an extraordinary commitment, not only by her, but her firm. And you can well imagine, all of you who are in public practice, all of you who are in small firms in public practice, you know what tax season is all about and our workload compression issues and all of those types of things. And it has been truly extraordinary.

And through all of that, every time we ask Kathy to do anything, to be there for us, when states ask her to be there because she puts a small firm face on a particularly difficult issue, she responds immediately and she always responds in the affirmative.

And so we are very fortunate in these very difficult times to have someone who has given so freely of her time. And I am most appreciative because she has been a great advisor to me and a person who can also keep my energy levels up as well.

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So thank you very much, Kathy.

(Applause.)

PRESIDENT MELANCON: I'm going to do one other thing as it relates to Kathy.

Kathy and I were in this very room after we left Las Vegas about, maybe a month after. It was our SEC Conference. It's the largest conference that the AICPA really has. It's broadcast internationally. It's, based on all of the locations, somewhere approaching two thousand people that participated.

As you can well remember, during that time we were in some very specific negotiations with the SEC on the independence matter.

And you also probably recognize, many of you who have heard me speak before, you know that I can really speak either from no notes or just some very limited notes.

And I went up and I spoke. And we were very concerned about saying some very precise things. So I actually read from an exact written script in my introductory comments.

And then I went to sit down with

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2 Kathy.

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And I said: "Man, I was getting into real trouble reading those notes, or that script."

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And she said: "Well, I'm sorry that you forgot your glasses." She said: "I do that sometimes too."

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I said: "Oh, no, I didn't forget my glasses. I just didn't want to wear them on the podium because I never wear glasses in those situations." I only just started wearing glasses and it's sort of -- maybe it's an indication to me of getting a little bit older in age. I'm not nearly as old as my gray hair might imply.

16

(Laughter.)

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19

PRESIDENT MELANCON: And so for the first time in making a presentation, to read notes, I am going to wear my glasses.

20

(Applause.)

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PRESIDENT MELANCON: Let me also say to all of you at Council and our Key Persons here, but particularly our Members in Council and State Society leaders and State Society Execs, we fully realize -- we fully

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realize the complexity of the issues that, and to some extent, we have thrown at you. And I don't mean in a negative sense, but have had to deal with you on; that they are very time-consuming, they are very stressful, but they're also very important.

And we recognize that as volunteers and as staff executives that you have had to put in over these last few years significant hours and significant pains and stress to deal with all of these.

And our profession, not only today, but our profession in the future is going to be much better for it because of the time and effort that you put into these issues in very sincere ways.

And people can disagree and people can wrestle with issues. But the thing that I think binds us all in this room, and certainly in the profession, is that we all have a significant passion for our profession. And that passion comes through in all of these deliberations. And that's something that we ought to feel very good about. And that's something

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2 that produces a very positive result in the long  
3 run.

4 In my comments and my  
5 President's Reports in the past, I've always, or  
6 at least recently, given a very detailed update  
7 on a whole variety of issues. And I'm going to do  
8 a little bit of that.

9 But, quite frankly, we were just  
10 in Regional Council meetings and my report during  
11 that timeframe gave you a significant update on  
12 all of those issues.

13 And so I won't bring those  
14 issues back to you.

15 In addition, I think the agenda  
16 that you have seen for this meeting - the Report  
17 on the Student Recruitment Program, Assurance  
18 Services Update tomorrow, Bill's report just now  
19 on the Exam - I think those are really  
20 substantive issues that fall into the basic  
21 design of our profession. And I think we have  
22 done a pretty good job, and hopefully you will  
23 feel so in giving you some very significant  
24 updates in those particular areas.

25 But I do want to just spend at



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sort of a high level, spend some time giving you some comments and some observations.

We also have a short videotape giving you sort of a sense of an update in a much more efficient way on some of these other points as well.

I think one of the things that really reflects some of the issues that we face today -- we've always faced issues. If we go back in history, we can look at Council meetings dating back decades, very difficult issues that at the time were very profound issues for the profession.

And they are no different today except that maybe two major points: the pace and the interrelationship of those issues today I believe are greater than ever before; and secondarily, some of it is because we have chosen in the past as an Institute to be proactive, to bring these issues forward, and in doing so we have brought to the table, to the agenda if you will, much more aggressively issues to deal with.

I believe that everything we do, everywhere we spend our limited resources as a

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profession - and I think that applies to State Society budgets and resources as well as the AICPA - can be classified under two parallel tracks.

And we sort of use that as a benchmark within the AICPA.

Our obligations under each of these tracks are very, very important, and, quite frankly, we need to succeed on both.

The first of these tracks is to strengthen our foundation, the basic essence of what we are as a profession.

And the second is to expand the CPA profession's market space with a particular eye to the future.

The profession's foundation is hard-earned. It's a hard-earned reputation for trust. CPAs have earned that, people who have gone before us through decades of providing effective, objective services in the marketplace.

But we also need to ensure that each of these services have continued market relevance.

You will continue to see over

2 the months and the years to come significant  
3 issues of refining the models of what we do in  
4 the bedrock services. You'll see some of that in  
5 the Assurance Services Report tomorrow.

6 But you will also see and hear a  
7 lot of things about the financial reporting  
8 model. It's going to be debated, for instance, to  
9 some degree in Congress this particular year as  
10 some of the leaders of Congress, both in the  
11 House and the Senate side, focus on the issue of  
12 should we have a greater effort of value  
13 reporting and what role does the profession play  
14 in making that happen.

15 We also have the issue and the  
16 bedrock in our area of dealing with the  
17 regulatory environment in which we perform our  
18 services.

19 Kathy spent a lot of time  
20 speaking to you about regulatory issues at the  
21 Regional Council meetings, and those regulatory  
22 issues embrace basically the UAA and some of the  
23 CPA Exam issues.

24 We have lots of work to do in  
25 this particular area, work that will consume us

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really for the years to come.

Quite frankly, we need to make progress in the UAA area and you have to be a part of that, you representing and interacting with your State Societies. The bulk of the work from a UAA perspective, the actual incremental movement, has to be done at the State levels.

And I know it's tough because I spent, before I joined the Institute, seven years working with legislatures for Louisiana and dealing with the same issues of moving legislative agendas forward.

And they get complex and you have tradeoffs. And it's not an easy task. But it has to be done if we are going to have a regulatory environment that maintains the State approach that we have and allows this profession to meet the marketplace and the changing needs that are going on today.

Bill just gave you a great report on what we perceive to be the right direction for the CPA Exam.

And there's also been some issues in the changed management area related to

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the CPA Exam.

Rest assured of a few things.

One, we have worked diligently with NASBA over the last several weeks to address some issues that have been raised. Some of those issues have been misinformation, failure to understand particular issues. And some of those issues have been a failure to reflect appropriately the respective roles that are necessary for State Boards and NASBA and the AICPA.

But we believe that maintaining the preparation of a Unified or Uniform Exam by the AICPA that meets the rigor as Bill laid out to you is absolutely essential.

Ginny asked a question and Bill sort of handed it off to me to comment on the issue of Prometric.

And from a purely technical sense, it was not in a pure technical sense an RFP from that process. There are a limited number of players and we worked with a variety and evaluated a variety of vendors in this particular area that could meet the needs of what we were

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trying to build.

And, quite frankly, what we are trying to build is the most sophisticated and most advanced professional certification exam in the world when it goes live in 2003.

And from that perspective it really came down to there were two vendors at play in that particular space. And we received proposals from both of those, discussions and negotiations. And we chose -- and when I say "we," it was -- our exam staff went through a very deliberative process of evaluating, based on a point system in the key components, what was the right vendor to partner with for a fairly long period of time because this is, as Bill indicated to you, a long development cycle to bring a sophisticated computerized model to the marketplace.

And we picked a company that we believe will meet those demands, not only in the short term, but in the long term.

And there have been some issues related to Thomson with that particular point, because Thomson now owns by Prometric.

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We began negotiating with Prometric before they were even owned by Thomson. We have no control over the fact that Thomson chose to buy Prometric. But that is the fact, that Thomson did.

And at the same time we have had significant discussions with Thomson and they clearly understand, since they made that transaction, the concepts of conflicts and things of that nature that have to be managed to a much greater degree, and they are committed to do that. They take their commitment to the CPA profession very seriously and we have shared those thoughts with the NASBA leadership and we will share it with State Boards.

And I believe that we have made significant progress at a very high level. There's still work to do in resolving all of these issues.

And Kathy introduced -- unfortunately, they weren't here because they were coming back from their own board meeting when she introduced you to them. But she introduced John Peace, who is the Chairman of the

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NASBA, and David Costello, both of whom are now with us. David is the President and CEO.

And I think as you spend the next couple of days with us, if you have an opportunity to interact with them, I think they would concur at this same level that we are working diligently to resolve this thing.

And I think we are unified in our goal of making sure that we have the best Uniform Exam that this profession can possibly imagine.

Also I think sometimes when we get wrapped up into all of the issues that we face and to make some very difficult decisions we fail to just look back into not the distant past, but the near past of all the things. We have, in fact, moved forward.

Just in the last twenty-four months, for instance, we have established the most significant mandatory quality control system requirements on our largest firms for purposes of adhering to independence, which is one of those areas that's focused on our core competency areas in the history of this profession.



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Little known, but very significant.

We fought hard in a very public way to make sure that a rule that was adopted by the SEC had the least potential impact on smaller firms and on the profession in the future. And I think we were very successful from that standpoint.

We are in the process of modernizing our own ethics rules. I shared those comments with you at Regional Council regarding the engagement-based independence test so that they can remain relevant in today's changing marketplace. And that exposure draft has been developed and is in the marketplace in a very short timeframe and is now available for our members to comment.

We've put together an unprecedented coalition of more than eighty businesses to invest and to provide human resource capital to launch XBRL, which is revolutionizing the dissemination of business information on the Internet, not only in the United States, but worldwide.

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2                   And it is something that this  
3 profession took a very aggressive leadership  
4 position on.

5                   In those last twenty-four  
6 months, in fact, in the last twelve months, we  
7 have received a report from the O'Malley Panel of  
8 the Public Oversight Board on audit  
9 effectiveness. Jim Castellano gave you a detailed  
10 report of that at our Regional Council meetings.

11                   We've worked with them  
12 diligently in honestly addressing areas for  
13 improvement in our profession.

14                   Today, over eighty-five percent  
15 of the agenda topics on our Auditing Standards  
16 Board's agenda are directly related to projects  
17 to address the recommendations of that panel, a  
18 significant undertaking and investment of  
19 volunteer time, staff time and AICPA resources.

20                   But it's the right thing to do.

21                   We continue to enhance our Image  
22 Campaign. Our Image Campaign started some five  
23 years ago. We've made enhancements and  
24 improvements to it every year.

25                   This past year we introduced a

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co-op program with State Societies. It was very well received and it has increased the viability of that plan in the marketplace.

We've modified SARS to reflect the new world of computer reporting, if you will, or computer interface with clients and to allow more flexibility for practitioners to meet client and marketplace demands.

As we speak - and Al will give you more details on this tomorrow - Microsoft is announcing requirements for over 150 companies to get a Webtrust seal in order to be linked into the Internet Explorer browser, that companies call certificate authorities.

And well over probably \$12 million of business services within this profession will come about with the issuance of those 150 seals worldwide.

In those last twenty-four months we have launched new services.

And you've heard about the exciting new student awareness campaign that we have embedded into the budget that you will vote on on Wednesday.

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In addition, in those twenty-four months we have actively sought to enhance our relationship with Beta Alpha Psi, to increase our connectivity to college students.

We have increased significantly student memberships in the AICPA, which become a life-long tie to this particular profession.

And throughout that we continue to remain the key voice in informing the public debate on such issues as tax simplification, social security reform and estate tax reform; significant leadership roles for our profession.

By engaging in all of these efforts we serve the public interest and we serve our standing as the most trusted profession in the world.

But as we work on this complex set of today's issues, as reflected in our agenda for this meeting, quite frankly, we must continue to spend time on tomorrow's challenges and opportunities.

That is the other half of what we must be committed to do.

It is easy to say that we will

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just do what we are comfortable with. But we must remain committed to ensuring that our members are ready and able to respond to market demands and economic opportunities of the future, quite frankly, opportunities and vision that may not have any effect on anyone in this room except maybe the youngest of those who are in this room.

The AICPA remains the home for our members as they build these competencies and move into the new role as trusted advisors to their employers and clients.

With cpa2biz and through a wide range of initiatives we'll hear about, as I said, tomorrow, we are fully engaged in discovering new markets and opportunities for the CPA profession, and most importantly, to provide high tech, real time tools for our members to meet and take full advantage of those opportunities.

As I said, I would like to show a short video. There are actually two videos: one that you will see tomorrow related to some of the work on these new projects, and one today to give you an update of some of the key issues of image, curriculum, student recruitment, et cetera.

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Wil.

(A video was viewed by all assembled.)

PRESIDENT MELANCON: Just to give you a couple of additional observations on issues as we move forward, we expect that President Bush will be appointing a new SEC Chairman in the very near term. There are an awful lot of rumors as to exactly who that person will be. We are quite confident that we will be able to forge a very strong relationship with that new SEC Chairman and build a relationship of cooperation and trust with the SEC that's imperative, I believe, for the profession to be able to continue its progress in the many areas that we have underway.

I think it's also important to not forget some of the activities that we have ongoing in the international area.

For instance, I think we are going to see increasing needs to disseminate information and help our members gain competencies in the international accounting standards areas.

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Over the next few years those standards will become much more prevalent in the United States and, in fact, will become much more uniform worldwide.

On the issue of self-regulatory matters, IFAC, the International Federation of Accountants, is undertaking some bold initiatives as it relates to firms and peer review programs, in many ways peer review programs that look a lot like those in the United States.

And in addition to that, we are working with several foreign countries at their request to help them establish peer review programs modelled after the peer review programs that we have here in the U.S.

I think it's also important to understand that as we go forward as a Council, you will continue to see agenda items that I'm quite sure will pique your interest and will challenge you.

In fact, for us to remain on the leading edge of the profession as a profession, that quite simply is an imperative. So you can expect, as Kathy has indicated to you at Regional

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Council, serious discussions about the self-regulation direction.

You will see some significant initiatives from the AICPA as it relates to addressing a very difficult issue that we've had with us for an awful long time, and that is, how do we make our self-disciplinary processes more meaningful and more responsive to public expectations.

There are a lot of debates that are going on within the Institute, within our members today, on exactly how to do that.

You know, with your approval we appointed public members to our Ethics Committee for the first time. That is having a positive impact on the process. And we continue to debate ways to improve that particular notion as we move forward.

And I, quite frankly, think that it's something that we have to get our arms around if we are going to have a credible self-regulatory process in the long term.

I think it's also important as you face these issues of future agenda topics



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that we really understand that all of these issues as we move forward have an interplay.

For instance, we spent time today talking about the exam. The exam has a direct correlation to ideas and image concepts of students, and it has a direct impact on what accounting faculty teaches about accounting.

In addition, we have spent time in past meetings talking about the direction of accreditation programs. That has a direct impact on how we expand the services into new areas, how we create annuity streams for the profession, and how we enlarge the footprint of the profession.

For many, many, many, many years and in the halls of various State legislatures we've had the debate on non-CPAs in firms. That has a direct impact on the mobility of regulation in this profession, on brand image and on the ability to succeed in expanding our new services.

In fact, changes and modifications in regulation also have an effect on student attraction and, conversely, on accreditation.

The Vision process that we

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undertook, it is still the hallmark of the direction of this profession, has a direct impact on how we implement things, such as cpa2biz, student recruitment programs, new concepts on value reporting and, in fact, the development of new services, several of which you will hear about in tomorrow's presentation.

I would ask you that as leaders of this profession that you focus on the need for the future in every endeavor that we bring forward in the years to come.

Each of you has certain areas that you have some expertise in.

I would also ask you through that process, through e-mails, direct communication, talk in the hall, to continue to challenge us each day, the people on committees, staff, volunteer leaders who are on boards of directors, et cetera, to focus on ways to be innovative and to make change happen.

Change is hard. Some days it's harder than others.

(Laughter.)

PRESIDENT MELANCON: But just

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remember. If change were easy, it wouldn't be nearly as important.

Building consensus, communicating better and better, and in the end still not communicating well enough, and balancing risk is all part of the process.

And, yes, balancing risk is part of that process.

But you can rest assured that our profession is on the leading edge. When you combine things such as our Vision, our assurance services, our image campaign, the changes in the exam, and a whole host of others that I have covered today and in previous meetings, we, as a CPA profession, are in the middle of the most significant change management initiative by any profession anywhere any time.

I'm confident that we are headed in the right direction for long-term success. And I'm more confident than ever that each successive decision that we make, as long as we make those decisions with respect to those two tracks, expanding our foundation and maximizing our future potential, that we will, in fact, ensure

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our continuous progress forward.

Thank you very much.

(Applause.)

CHAIRPERSON EDDY: Are there  
any questions for Barry?

(No response.)

CHAIRPERSON EDDY: Well, I have  
absolutely nothing to add to that except to say  
that this profession is better off because of  
your leadership.

(Applause.)

CHAIRPERSON EDDY: It's now  
time for a break.

Please be back at twenty to,  
10:40.

(Which were all the proceedings  
at the Second Session of Council, which concluded  
at 10:15 o'clock a.m.)

\* \* \*

T H I R D        S E S S I O N

Tuesday, May 1, 2001

10:40 o'clock a.m.

CHAIRPERSON EDDY: I'm going to just make a few reminders about your Hill visits because I know how that process works and I know some of you have Hill visits planned this morning. And so I just want to give you a few reminders right now about that.

Make sure that you take on your visits your Congressional Hill folders that contain the copies of the issue papers, the issues that you heard about yesterday. You need to pick up those Hill folders at our Washington table that is right out there by the Conference registration desk.

Please coordinate with your group if you would and only take the number of folders necessary to complete your Hill visits.

One of the things that we've had questions about is the shuttle service. There is a shuttle service to and from the Capitol for your visits today as well as for tonight's

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Congressional reception.

Please refer to your handout.

There is a handout in the materials for the schedule of the shuttles and also the map indicating the locations of the bus stops and the reception site.

So for any of you who are leaving early for those visits, please make sure that you get those Hill packets so that you know when to catch the shuttle, where to catch it, and also a map of the Hill so that you know where to go.

All right.

Moving on with our agenda.

At the Regional meetings of Council we heard loud and clear that our members do not know yet about the Credential.

In fact, the research shows that over fifty percent of our members do not know or understand about the Credential.

To a large extent our emphasis to this point has been on bringing you, our Members of the Council, the facts, and State Society leadership as well.

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This has been a calculated approach based on our confidence in you and your commitment to act as stewards for this profession.

Our approach has been different from what other countries contemplated in moving this Credential forward. Most other countries involved in the Global Credential did not feel that this issue had to go to their membership for a vote. We did. We believed we could only move forward after first obtaining the facts you needed to make an informed decision.

If you give us the green light to continue developing this credential, our member information and response team will turn its engine on.

John Hunnicutt will outline for you now what our approach will be if we have a subsequent positive vote of Council.

John.

MR. JOHN HUNNICUTT: Thank you, Kathy.

I know there are people in this room knowing that I am technologically

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challenged, that are less concerned with the substance here and more concerned as to whether or not I survive PowerPoint.

(Laughter.)

MR. JOHN HUNNICUTT: The other issue is that I really tried to find where Ron Cohen is so I don't do the same thing.

(Laughter.)

MR. JOHN HUNNICUTT: Let me tell you in a few moments what we contemplate and what we are poised to do with regard to getting our members informed as to what this is so that they can make an informed judgment.

It has been an issue and I know it's been a concern for the leadership, State Society leadership, the men and women in this room.

And as Kathy points out, this has been a process that has started with the Strategic Planning Committee, the Board of Directors, the Council, and the next step, depending on the discussions tomorrow, our members.

Here's the concept. Here's what



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we're thinking about.

This is an issue where we are going to make a member outreach, get a response and we will have the ability to make a policy determination.

It has been Council first. This conceptually I think will give you exactly where we are. We are poised to launch. We have done as much of this as has been possible to date.

I should remind you that part of the reason has been, Council directed us to get and bring to it information on a business plan and student research, more rigorous research than had been conducted to date. And all of that has contributed to making the assumptions and beginning to focus on what lies ahead that makes this viable and how we would construct it.

And you heard Judy Trepeck on behalf of the international consortium describe this.

So along the way we have shared the white paper that describes the concept. We have kept the State Societies and from time to time on e-mail kept you up-to-date on what the

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steps have been and what milestones we have reached along the way.

But it is time, quite obviously, now to strengthen this and to proceed to a rigorous member education/information program.

There are some basic premises that we must all embrace and agree and be confident that this is what will guide what we are trying to do.

We want to focus on the concept and try to avoid getting tangled up in the ancillary, unnecessary issues that sometimes in a debate of this kind and a discussion and dialogue of this kind with its implications for the profession can get lost.

And so the base of this is let's stay on focus and let's make sure we understand.

We have an obligation to our members to provide a balanced view. They need to feel comfortable that the information they are getting is credible and gives them enough information, both with regard to what substantiates the concept as well as what the risks are that are inherent in it, so that they

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can have some confidence, and more importantly,  
you can have some confidence that we are  
presenting balanced information and balanced  
views.

And what is also important is we  
want, as is humanly possible in the period of  
time that Council permits for us, to get the  
members' participation and comment and response.

Now, we know and you know that  
this concept, this idea, has come, as I said,  
from Strategic Planning to the Board and to you.  
It is not like the Vision, which was  
intentionally and otherwise coming the other  
direction.

We know that and it has been  
part of the problem we have faced.

But as Kathy pointed out, the  
decision was that a policy of this magnitude  
should come to this Board, to this Council,  
excuse me, for it to make a policy decision.

Here are the objectives.

We want to provide our members  
with information and we want to get their  
feedback.

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2                   And we want to stimulate a  
3 meaningful dialogue at the grassroots level.

4                   We want to, as is humanly  
5 possible, to try to emulate the discourse and the  
6 dialogue that took place during the Vision  
7 process.

8                   We want to provide State  
9 Societies with the tools they need to help  
10 undertake this task. The State Societies and the  
11 leadership, and those of you in this room, will  
12 have a role to play in this to the extent that  
13 you participate in sharing the information that  
14 we will have both developed and sent to you, as  
15 well as to our members.

16                   As I said at the outset, we will  
17 need and want to be sure that CPAs can understand  
18 XYZ and the concept: what is this all about,  
19 what's its context, why XYZ, where does it fit,  
20 what is it in the larger picture of the future of  
21 the profession and with all its implications and  
22 ramifications.

23                   And, lastly, we want to keep you  
24 up-to-date on the information and responses we're  
25 getting. And we will do that in all ways that are

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humanly possible: e-mail and directly and otherwise.

Now, one of the things that we are going to do to start, to put this in context, is that every member of the Institute will receive from Kathy a letter, one perhaps maybe two pages, not outlining the concept but alerting our members to what is taking place, what they will be receiving, what will be expected of them, why this is underway. So we put it in some frame of reference for them as they begin to get information from us, from you, from State Societies and the like.

Now, what are the various approaches?

There will be videos.

There is a website. We will have Webcast.

There will be e-mail updates as there have been in the past with hyperlinks to other parts of this whole enterprise.

We will have editorial support. We are going to provide as much in the way of articles, answers to the members' questions,

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powerpoints, brochures, whatever it will take to inform.

Now, at this point it's important, in order for us to be sure that we are passing this information and helping our members understand to make an informed judgment, that this editorial support meets one of the premises of being balanced information, that is, credible information.

To that end we will be consulting from time to time with members of the Vision team, volunteer members, State Society Execs, who have been managing the change, the change management that has followed the Vision. And we will ask them from time to time to scrutinize some of this material so that we are confident that we are fulfilling our obligation and duty to be as faithful to a balanced report, balanced information as is possible.

Now, we will, in the case of states that wish to undertake member forums -- some have already, some may want to do so in the future - provide a tool kit, some facilitation guides and mechanisms and means by which they can

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obtain some feedback and entertain the dialogue.

          This is an example of what I am talking about. It was a forum tool kit that was available and is available to states, complete with videos and materials for conducting and facilitating the materials and the like.

          We will have a speakers' bureau. It is clear that the states or the State Societies have annual meetings coming up. We have conferences. There will be any number of venues that we can use in order to provide as much information to as many members as possible between now and the next meeting of Council so that we can assess exactly what the information level is of our members and make an informed judgment and have confidence that they can make that.

          So we will be providing to the extent we can people who can participate in the activities of the states.

          We will have, as well, some communications with the media, using it to the extent we can to also be a conduit for some information.

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Events that need to be understood throughout the profession we will convey as best we can through the media and press releases and the usual procedures and usual means in which we can try to use them as a conduit for the information.

We will have and will try, as we have in the past, one-on-one sessions with reporters, briefings as we've conducted them, and as necessary info-mercials if we have to counter some blatant misinformation and attacks that don't stay on substance and don't stay with regard to the program and the concept and what we are trying to accomplish.

Now, you've heard me refer to the State Societies in this respect because this is clearly a State Society focus in the sense that many of the societies have already expressed themselves with regard to this concept. Some have held forums. Others look forward to annual meetings in which this is going to be discussed and also then move forward with aggressive attempts to inform their members.

This is not going to be a



2 program in which, from our office in Washington  
3 where the member information center resides, that  
4 we are going to do this the same way in every  
5 locale.

6 I had expressed personally to  
7 the State Executive Directors and CEOs that what  
8 we want to do is to customize communications to  
9 the members in their states to the point that it  
10 fits with what the State Society is comfortable  
11 with our doing and what compliments what they are  
12 doing and the like.

13 So the way we will approach this  
14 and the information that we will provide to as  
15 many of our members as possible, and all if we  
16 can do it, will be with close consultation with  
17 the states so that we can provide them with what  
18 they need, they can guide us with respect to how  
19 they think it's best to approach it so it does  
20 become to the extent we can do it a partnership  
21 between we at the Member Information Center at  
22 the Institute and the State Societies.

23 And we are aware that that's  
24 going to be different from state to state, but  
25 that's going to be the means by which we go

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through that rather than trying to unilaterally do it with a one approach fits all.

This is a brief outline of the Member Information Center. It's located in Washington. The website is globalcredential.aicpa.org. This describes for you essentially in the simplest terms what we are doing.

It is from the Member Information Center that we will communicate with and through the societies. We will interact with our members to the extent more of them increasingly and more frequently use and contact us for information.

We will use as much web-based facilities as we can to get information not only available, but to try to reach the members directly.

So we will be reaching members through the societies. We will be reaching members through their interaction with regard to the web base of it as well as direct.

The goal, as I described it, find out what the members think, get the

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directs to  
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2 information they need for an informed judgment,  
3 and then pass it to you so that you will know and  
4 feel comfortable that we understand that the  
5 members are informed, that they are ready to  
6 express themselves as to whether or not we should  
7 proceed on this and that you've had confidence  
8 that the information they have received is  
9 correct, is balanced, is helpful and is faithful  
10 to the directions you have given us in the past  
11 and the direction you will give us tomorrow.

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This is what we are trying to  
do. We want to bring the dialogue - and I  
emphasize the word "dialogue" - to the  
grassroots.

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We didn't build this and it  
could not work or it could not come to you as a  
grassroots bottom-up.

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But to the extent, that having  
come from Strategic Planning through the Board  
and through you, we will now engage the  
grassroots in the best way we can with all the  
energy we can and try to engage in dialogue so  
that the profession can face an important  
decision with good, solid policy discourse, and

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then make a judgment.

And I'll be happy to take any questions and elaborate.

And I'm sure Ron Cohen will be the first.

(Laughter.)

MR. JOHN HUNNICUTT: Are there any questions or observations or things that I missed?

(No response.)

MR. JOHN HUNNICUTT: I remind you to keep in touch with us, please, with [globalcredential.aicpa.org](http://globalcredential.aicpa.org).

Thank you.

(Applause.)

CHAIRPERSON EDDY: Thank you, John, for that update on the member information and response efforts.

We now turn to agenda item 10, the new Global Credential Panel Discussion.

At the Regional Council meeting in New York, it was suggested that we have a presentation at this meeting where members who stood pro and con on the new Global Credential

1  
2 had an opportunity to address Council on the  
3 issue.

4 In response we have organized  
5 the following panel discussion.

6 We are very fortunate to have  
7 Michael Rayner, the President of the Canadian  
8 Institute of Chartered Accountants, who is here  
9 with us to serve as moderator of this discussion.

10 On the pro side we have:

11 Virginia Stanley, a member of  
12 the AICPA Board of Directors and past president  
13 of the New Mexico Society of CPAs;

14 Bob Elliott, Immediate Past  
15 Chair of the AICPA; and

16 James Carr, Chair of the Indiana  
17 CPA Society.

18 On the opposite side we have:

19 Eddie Sams, Managing Partner of  
20 Dixom Odom, a Group B firm;

21 Gerald Sokolski, President of  
22 the New York Society of CPAs; and

23 Vincent Villinski, President of  
24 the Illinois Society of CPAs.

25 We've asked each participant to

2 speak for approximately five minutes on the  
3 subject and then Michael will moderate an  
4 exchange of ideas between them.

5 As I said on Sunday, we have  
6 structured this dialogue to be amongst the  
7 moderator and the panelists. And we expect then  
8 tomorrow during the resolution agenda item that  
9 we would be able to have questions and debate on  
10 the floor of Council.

11 Michael, I turn it over to you.

12 MR. MICHAEL RAYNER: Thanks  
13 very much, Kathy.

14 I would like to wish you all a  
15 very warm welcome to a panel discussion on the  
16 pros and cons of the proposed new Global  
17 Credential initiative.

18 As Kathy has already indicated,  
19 we have a distinguished panel to debate the  
20 issue.

21 Our objective is to assist you  
22 in deciding how you will vote tomorrow on a  
23 resolution scheduled to be presented in  
24 connection with what I believe to be one of the  
25 most important and significant strategic issues

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ever placed before the AICPA and the CPA profession.

Let's begin by reviewing how the panel will operate.

We are going to have three rounds of discussion.

Round one will consist of five-minute prepared presentations by each of our panel members.

Round two will involve a more informal exchange of views among the panel. And that will take about thirty minutes.

And round three will be a wrap-up session in which a spokesperson for each of the pro and con teams will present a two-to-three-minute closing statement.

Now let's consider the rules of debate.

For round one, panel members are being given five minutes to give us a brief resume of their professional backgrounds and present their positions on the XYZ proposal.

I will give you a thirty-second warning to each speaker to ensure that we keep to

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our timetable.

For these opening statements we will alternate between speakers on the pro and con sides of the debate. Each team has already decided on the order in which its members will speak.

All that remains is to decide on which team kicks off the debate and we will do that in a few minutes.

For round two, a panel member from one team will address a question or comment to a panelist on the other team. Once the designated panelist has responded, his or her team members will be invited to add comments.

And then that team will have a chance to address a question or comment to a panelist on the other team.

We will keep this part of the debate going as long as time permits and the sparks keep flying.

(Laughter.)

MR. MICHAEL RAYNER: For round three, the pro and con teams have each selected a spokesperson to present a closing statement of up



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to three minutes.

Now, I think we are ready to  
move to round one.

On the card I have with me I've  
written a number between 1 and 20.

I'm going to ask each team to  
chose a number between 1 and 20. The team which  
chooses the number closest to the number on this  
card will lead off the debate by speaking first  
in round one.

I was going to flip a coin but  
Barry suggested I might be coordinately  
challenged.

(Laughter.)

MR. MICHAEL RAYNER: So can I  
ask the con team to give me a number between one  
and twenty.

MR. GERALD SOKOLSKI: Fourteen.

MR. MICHAEL RAYNER: Fourteen.

And the pro team?

MR. ROBERT ELLIOTT: Six.

MR. MICHAEL RAYNER: Our first  
speaker then will be Gerry Sokolski.

MR. GERALD SOKOLSKI: Thank

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you, Michael.

And thank you, Members of Council, for your willingness to hear from us today.

Before I begin, let me emphasize that it is all right for reasonable professionals to reasonably disagree.

I'm at the end of my presidency of the New York State Society of CPAs. I never thought that one of my last tasks would be to speak to you in opposition to the credential, what I think we all agree is a highly creative, but some feel is a misguided effort.

Our members in New York State have three key problems with the credential concept.

First, our members said they really don't like it.

Secondly, this is a credential that will give your competitors and my competitors a leg up to compete with you and me.

And, third, our members keep asking why we are creating a new profession with their dues money.

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2           Let's take a moment to tell you  
3 a little bit about our members. Even though New  
4 York State is the proud home of New York City,  
5 the vast majority of our members are more like  
6 me. I'm from Rochester, which is not very much  
7 like New York City, to say the least.

8           The vast majority of our members  
9 are small firms owned by a handful of CPAs who  
10 are fiercely proud of being CPAs.

11           We sent out a survey to all of  
12 our 30,000 plus members. We got back over 6400  
13 responses. And seventy-six percent said they did  
14 not like the concept.

15           Now I'm not talking about the  
16 name "cognitor." Ninety-three of the respondents  
17 didn't like that.

18           But seventy-six percent disliked  
19 the concept of the credential. They just don't  
20 want an interdisciplinary credential other than  
21 the CPA.

22           Therefore, the New York State  
23 Society resolution is designed to stop us from  
24 going down the right path, but at the same time  
25 does not preclude us from investigating other

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possibilities.

In the interest of full disclosure, most of those respondents said they did not know about the credential project. Yet the more our members knew about it, the more they disliked it.

The New York survey went out to our entire membership. The survey's demographics very closely reflected the demographics of the New York State Society as a whole.

There is a block of nearly 5,000 CPAs from New York from every corner of the State who solidly oppose the concept.

How many are there in your state?

Our second concern is giving birth to an interdisciplinary credential. Our members fear that this credential will give our competitors a leg up in competing with us.

A lot of small practitioners see the AICPA as doing the biddings of the Big Five and pushing the credential.

Now, you and I both know that is not correct. In fact, PWC has publicly and

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strenuously opposed the credential.

But I think, in addition, there is a concern about an important unintended consequence. Think about it. The first firm to line up for the interdisciplinary credential will be Booz Allen & Hamilton, one of the largest non-CPA consulting firms in the United States.

In the future it won't be Booz Allen Consultants versus KPMG, CPAs competing for a consulting project. It will be Booz Allen XYZers versus KPMG XYZers.

My firm in Rochester does not compete directly with Booz Allen, but I have received numerous e-mails and phone calls and letters from members of smaller firms who are concerned with this issue.

I'm going to read briefly from one such e-mail.

"Dear Mr. Sokolski:

"Thank you and the Society Board for listening to the members and voting against XYZ/cognitor. After twenty-four years I am certainly thinking of dropping my membership in the AICPA. That organization has done nothing for

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2 me as a CPA and now it is doing things  
3 detrimental to me.

4 "I see no reason to give them  
5 money to help them.

6 "NYSCPA is an organization  
7 defined by its members. I think of it as 'us.'

8 "I think of the AICPA as  
9 'them.'"

10 Now, by the way this e-mail  
11 bothers me greatly because I'm a firm supporter  
12 of the AICPA and I strongly believe that the  
13 AICPA performs a vital role in our profession and  
14 I want to see it continue that way.

15 So we have to find ways of  
16 changing this opinion.

17 The third concern I've got on  
18 behalf of our AICPA members is the use of the  
19 assets of a CPA organization to create a new CPA  
20 profession.

21 I can tell you that I have a  
22 great concern that I am not fulfilling my  
23 fiduciary responsibility as a member of Council  
24 if I vote to spend our assets to start a new  
25 profession --

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MR. MICHAEL RAYNER: Thirty seconds.

MR. GERALD SOKOLSKI: -- that will compete with the CPA profession we represent, especially since this was one of the most repeated concerns communicated to me by our members.

In closing, you have heard that the credential is an attempt to turn the CPA profession from a Toyota into a Lexus.

I have a concern that instead of creating a Lexus, we might be creating an Edsel.

Thank you.

(Laughter and applause.)

MR. MICHAEL RAYNER: The first speaker on the pro sides of the debate is Virginia Stanley.

MS. VIRGINIA STANLEY: Thank you, Michael.

I grew up in a medium-sized local firm in Albuquerque, New Mexico. I then spent seventeen years as a sole practitioner specializing in tax and personal financial planning.

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The last year-and-a-half I've been the partner in charge of the financial planning division of a 140-member team.

I sat on the Special Committee for Accreditations and I'm in my third year on the National Accreditation Commission. I come to you from this perspective.

I first learned of this initiative two-and-a-half years ago. And I will tell you I was intrigued but not enthralled, and certainly less than enthusiastic.

I was concerned about what it really meant for the CPA profession, particularly what it meant for solo practitioners and also what it meant to the AICPA accreditation process.

Since then, I have come to understand, appreciate and enthusiastically support this initiative.

Timing is critical. Timing is now. We may be a prime mover in this initiative, but we are not the only player. We were late to the market with PFP and Valuation accreditations, and I would like us not to make that same mistake.



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As a solo practitioner in Albuquerque, not the most sophisticated place in the world, I found myself with clients in eleven countries. The network in XYZ resources that would have been available to me would have been priceless.

By way of example, I had a client who decided to do business in Kazakhstan. I didn't even know where it was, let alone how to do business. A thirty-hour project could have been accomplished in four or five hours.

Keeping that in mind, certainly the \$250 annual fee, just a little bit more than one hour of my billable time, would certainly have been a bargain.

And for my non-international clients, the source of information and advice I could have gotten participating in this network would have given me an opportunity to provide services I could not have otherwise provided.

I like it because it is flexible and it's market-driven. It's optional. Its success will depend not on the AICPA but by the market.

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And the research is telling us that the market is ready.

Consequently, I believe opportunities exist for CPAs to leverage using XYZ. What do I mean?

The Special Committee on Accreditation said that the AICPA should accredit only to provide market opportunities for its members.

Dual accreditation equals CPA brand stretchability equals market opportunities for CPAs.

I'll use PFP as an example. I hold four accreditations in personal financial planning and valuations. Potential clients who come to me, not for my normal referral sources, will interview many, mostly CFPs, the most recognized credential in the planning industry.

But at the end of the day it's my phone that's ringing.

And when I ask them why, they say, well, you are a CFP, but you're a CPA and you are a PFS. I didn't even know you guys did this sort of thing.

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2                   Moreover, within the last thirty  
3 days the two largest very well-established, non-  
4 CPA financial planning firms in Albuquerque have  
5 called to see if somehow we can't begin working  
6 together.

7                   Thirty years ago CPAs were doing  
8 financial planning and CFPs didn't even exist.  
9 Today CFPs are our competition.

10                   But we have been able to compete  
11 and we have been able to flourish using dual  
12 accreditations.

13                   I believe XYZ will create  
14 similar opportunities while helping to stretch  
15 the CPA brand particularly when coupled with  
16 AICPA accreditations.

17                   XYZ will continue to expand  
18 market opportunities for CPAs. The Special  
19 Committee on Accreditation also said if it  
20 already exists elsewhere, don't recreate it. Look  
21 to partnering, look to strategic alliances.

22                   Folks, that's exactly what this  
23 XYZ concept is.

24                   An XYZ, AICPA or Society member  
25 will benefit through strategic partnering,

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alliances, sharing of information and sharing of resources and databases almost exponentially given the knowledge not currently available to the AICPA but that exists elsewhere in other disciplines, knowledge that in a hundred years couldn't be replicated by the AICPA.

I believe --

MR. MICHAEL RAYNER: Thirty seconds.

MS. VIRGINIA STANLEY: -- such information provides opportunities to CPAs while raising the bar for our competition.

I take my fiduciary responsibilities seriously. I've heard the Industry Executive Committee Chair report to the Board of Directors a unanimous vote in support of this initiative. That committee represents forty-three percent of our membership.

Finally, for those of you in public accounting that you think you might be too old to really benefit, I ask you to consider this for your junior partners. It may just help them pay off their capital account.

(Laughter and applause.)

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2 MR. MICHAEL RAYNER: Thank you  
3 very much, Ginny.

4 Now we turn to Eddie Sams.

5 MR. EDDIE SAMS: Hi! My name is  
6 Eddie Sams. I'm managing partner of Dixom Odom in  
7 North Carolina. At peak we have about three  
8 hundred and seventy-five people and have offices  
9 in three states.

10 I'm also Chairman, North  
11 American Chairman, for Morse Roland  
12 International, which has about a dozen US  
13 members, twelve of which are Group B members.

14 Thursday afternoon John  
15 Hunnicutt called me on the Metro down in Atlanta  
16 and asked if I would sit on this panel. So I sent  
17 an e-mail out Friday morning to some of the group  
18 of the MRI members to just get their input.

19 I asked the question: I have  
20 been asked to serve on a panel to discuss the  
21 AICPA proposal for the XYZ designation. I would  
22 be interested in any of your positions, thoughts  
23 or concerns about this proposal.

24 I was able to get three  
25 responses on the e-mail which I want to share

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with you.

And then I also had a couple from other member firms who I have talked to directly.

One of our largest members which has over a thousand people, he's normally not too wishy-washy and he wasn't this time either: "I'm opposed. I don't think we need it."

Another member, which is also -

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(Laughter.)

MR. EDDIE SAMS: Another member, which is also over a thousand folks: I've heard the presentation --

Excuse me. This is one that's about our size, a little smaller.

I've heard the presentation supporting the proposal at Group B in the SEC Practice Section. I believe we should spend the money to enhance the CPA designation. Specializations within the CPA designation could enhance consulting services.

And then the response from one of our larger members: The AICPA has used the

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marketing surveys they commissioned to assess the need for XYZ. I believe they overreach the conclusions of the survey to prove their point. I believe they would be better served to soften their approach based upon their research.

And I'm just pulling selected comments.

Even if there is a need, I doubt there are funds available to pull off the branding on an international basis.

Barry said the AICPA would not fund the project but that those who would supply materials for training of XYZ members would front the development money. However, no more specific information was available.

I asked one other. He said he has no idea. He's too busy making money.

(Laughter.)

MR. EDDIE SAMS: And I asked one other member and he is against it.

I listened to the part on the students. I certainly looked at the survey there. I did recognize Ron Cohen the other day when he stood up --

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(Laughter.)

MR. EDDIE SAMS: -- and when he made the comment, part of the comment about retention.

In our firm attracting students is not the issue. It is an issue on campus. I understand that. I've chaired the North Carolina Business Advisory Council, Accounting Business Advisory Council.

It's the retention. We've got to get them to that fifth and sixth year.

As I look at this XYZ designation, it's going to be in that fifth/sixth or seventh year most likely before they can get it.

I want to be able to hang on to them before we get there. I don't see this as helping that.

As you look at firm initiatives, and we have many enemies, and I understand taking risks, and when we lose on something we take a risk on, those errors are, in fact, aimed for the back and they are aimed for the lower back. And we have taken a few of those.



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But we are going for more narrow specialization. What I see with the XYZ designation is extremely broad. As one of our members from North Carolina said: he looked at it and said that would be a Renaissance man.

MR. MICHAEL RAYNER: Thirty seconds, Eddie.

MR. EDDIE SAMS: Thank you. There is real concern and it's not just the money. I'm concerned that this group is not together on this initiative.

The people I've talked to as I ask them the question sound lukewarm, uncertain, many times no and very few times yes.

I've always said I would rather say "whoa" then "go." And I appreciate the initiative that our AICPA staff has done on this one. But at this time I would have to say whoa.

Thank you.

(Applause.)

MR. MICHAEL RAYNER: Thank you very much, Eddie.

We now turn to Jim Carr.

MR. JAMES CARR: Thank you,

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Michael.

Let me begin by giving you a brief summary of my background.

I have been a sole proprietor for the past seventeen years dealing primarily with business clients and individuals in the areas of accounting, tax and primarily business consulting.

Geographically my office is located in northwest Indiana, a half-a-mile from the Indiana/Illinois border and thirty miles from downtown Chicago.

As such I am certified and licensed in the State of Indiana and Illinois and a member of the Indiana CPA Society and the Illinois CPA Society.

The first thing that I would like to discuss is to share some information and ratings from a road show program which the Indiana CPA Society held last fall.

These programs were open to all members which were involved by mail. Thirteen programs were held throughout the State of Indiana and approximately thirteen percent or one

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2 thousand members attended.

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The road shows were framed with the XYZ concept and other relevant issues. A formal presentation was made followed by a question and answer discussion period and then finally the members were asked to rate the issues on a 1 to 5 rating with 1 being opposed and 5 being supportive.

Statewide our members rated the Global Credential at 4.1 out of 5.

Now, I would like to present some of the benefits of the XYZ Credential from my small firm's perspective.

Number one, the XYZ Credential provides a framework structure and a professional community for small firms. Currently significant effort, time and resources would be necessary for a small firm to formally operate in this arena.

Small firms simply don't have the kind of resources.

Second, the XYZ Credential provides an opportunity to break the CPA stereotype without abandoning the CPA brand. In other words, a small firm might choose to operate

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2 as a CPA/XYZ. Thus the small firm could leverage  
3 off this new credential if they so chose.

4 Many have proposed stretching  
5 the CPA brand. Regardless if you believe the  
6 AICPA research or not, we need only look at the  
7 extreme difficulty of internal branding within  
8 our own profession. We cannot even get our own  
9 individuals in our own firms to use the CPA  
10 designation. How can we convince the general  
11 public?

12 Next, there are aspects of the  
13 CPA stereotype which we like and aspects which we  
14 don't like. I personally don't believe that you  
15 can dissect the stereotype in order to keep the  
16 good parts and discard the undesired parts. And  
17 even if you believe we can, I propose that the  
18 dollars needed to make such a program successful  
19 would be well out of reach of any member  
20 organization.

21 On the other hand, a local  
22 credential offers a unique opportunity to create  
23 a perception, not to change a perception. Efforts  
24 would not be wasted on fighting an image but  
25 rather directed at creating an image.

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2 Third, the XYZ credential does  
3 affect competition, but in my opinion in a  
4 positive way. It, in essence, raises the bar and  
5 the standard for individuals operating in the  
6 arena, much in the same way that a CPA is  
7 distinguished from other accountants or tax  
8 preparers.

9 Fourth, the XYZ Credential is an  
10 attraction for youth and recruitment. It is an  
11 opportunity to create and preserve. It is truly  
12 for the next generation. I believe it is our  
13 fiduciary responsibility to leave this profession  
14 in a better position for the next generation.

15 Finally, I believe that I am no  
16 different than any other CPA in this room. I,  
17 like you, worked hard and overcame obstacles to  
18 become a CPA. I am, like you, very proud to be a  
19 CPA.

20 And I, like you, would never do  
21 anything or support any concept, proposal or  
22 initiative which would diminish the CPA  
23 designation which is so dear to all of us.

24 But clearly times have changed  
25 and we cannot sit idle and watch our profession

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erode --

MR. MICHAEL RAYNER: Thirty  
seconds.

MR. JAMES CARR: -- by the  
market forces, government regulations and society  
changes.

We cannot cling to the ways of  
the past which simply do not appeal or interest  
the youth of today.

We must remain vibrant. We must  
change to remain vibrant and meaningful.

Thank you for your kind  
attention and thank you for the opportunity for a  
small practitioner to address this distinguished  
group.

(Applause.)

MR. MICHAEL RAYNER: Thank you  
very much, Jim.

We now turn it over to Vincent  
Villinski.

MR. VINCENT VILLINSKI: Good  
morning.

I'm Vince Villinski and I'm  
Chairman of the Illinois CPA Society of

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Accountants.

Also I'm a recently retired partner of Pricewaterhouse Coopers after having spent thirty-five years in the audit practice.

As a Council Member and current Society Chairman of the Illinois Board, I can report to you that in all my discussions with CPAs at chapter meetings, committee meetings, CPA banquets and one-on-one discussions, not once did anyone tell me they supported the development of the XYZ project.

Quite the contrary. The conversation was either demeaning or irate regarding the AICPA proposals.

These may be the beginning discussions, not the ending discussions indicated in Sunday's market survey report. But as far as these Illinois members are concerned, these may be their final discussions.

Our Board unanimously believes this concept should not go forward in its present form and that this Council should not continue to be characterized as supporting its continued development and promoting its adoption.

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2                   The process for launching this  
3 concept has been acknowledged to us by AICPA  
4 leaders as having been top down and it certainly  
5 is.

6                   As an initiative, it is too  
7 broad in design, too expensive to build,  
8 distracts from other immediate priorities, and  
9 meet its public and regulatory perception about  
10 the profession's commitment to representing CPAs.

11                   It undercuts the franchise of  
12 CPAs and the CPA firms.

13                   We've also discussed this  
14 concept with accounting department chairs in  
15 Illinois and we agree with them that it will  
16 confuse our messages and greatly detract from the  
17 profession's ability to influence students to  
18 become accounting majors and eventually CPAs.

19                   We felt it was time to take the  
20 pulse of the organization. Statistically valid  
21 surveys in New York and Illinois were done by  
22 professionals and sought not to educate but to  
23 elicit a simple, straightforward reaction from a  
24 population of over 55,000 members.

25                   Questions such as do you



2 understand the concept, do you support the  
3 provision that non-CPAs will receive the same  
4 credential, do those who said they better  
5 understand the concept like it more or less.

6 The survey results from both  
7 states were published as general information and  
8 it was supplied to you, and it is not favorable.

9 As I said, the Board at its  
10 March meeting voted unanimously to oppose any  
11 further development of or investment in the XYZ  
12 Credential by the AICPA.

13 We felt it was important to take  
14 this formal action because of our responsibility  
15 to our members. The random survey of members  
16 showed a strong and in some cases I would say  
17 venomous opposition to the XYZ concept.

18 In fact, the survey revealed  
19 that the more respondents knew about the proposed  
20 credential, the more they opposed it.

21 To come out in support of the  
22 credential, or even take a neutral stance at this  
23 point would be a blatant disregard of our  
24 members' opinions.

25 Since members often perceive the

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Illinois Society and Institute as tandem organizations, it was important on this issue to publicly distinguish ourselves from the Institute's position to mitigate the risk of substantial loss of State Society memberships.

A couple of key concerns raised by members and the Board.

CPAs want their membership organization invested in their credential, not one that gives others a possible competitive advantage over them and certainly not one that is widely open to non-CPAs.

Our members already feel they have enough competition.

The narrowly-defined CPA described in the AICPA XYZ literature is disturbing to me and represents a strict licensing viewpoint, which is not a realistic or fair depiction of the current scope, credibility or opportunities CPAs bring to their companies and professional service firms.

They are corporate leaders in their businesses and communities. They certainly don't want to be told that their hard-earned,

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well-respected, credible and successful CPA credential is less than they know it to be.

The statement that the CPA brand cannot be extended and, therefore, needs to be augmented in some way is more than damaging. It's irresponsible.

I see no empirical research to support such a negative assumption. And if such research exists, we really need to study it further.

It appears to me that this statement is at odds with the national CPA Vision Project outcomes on which we just spent millions of dollars and countless hours.

The statement is perceived by many members to be demeaning.

What ever happened to "Don't underestimate the value"?

I can't speak for all of you, but I've never considered myself a Toyota. I consider myself a professional.

MR. MICHAEL RAYNER: Thirty seconds, Vince.

MR. VINCENT VILLINSKI: Until

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these other questions can be answered to the satisfaction of our members, the Illinois CPA Society Board of Directors cannot support the XYZ proposal as it currently stands.

We recommend that the Council vote be postponed until such time as grassroots discussion forums have been initiated so that members can air concerns, research regarding the elasticity of the CPA brand is completed, published and potential solutions debated, and we can assure that the status and recognition of the CPA credential will remain inviolate, and ample resources for multiple fiscal years are committed to support its goal.

MR. MICHAEL RAYNER: Thanks very much, Vince.

MR. VINCENT VILLINSKI: One last.

We deeply believe voting now for the XYZ, a member ballot, is not in the interest of all of our organizations.

Sorry.

(Applause.)

MR. MICHAEL RAYNER: Thank you

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very much, Vince.

End of round one, Bob Elliott.

MR. ROBERT ELLIOTT: Thanks very much, Michael.

I'm Bob Elliott. I've been with KPMG since I got out of school and I've been there for thirty-seven years involved in audit policy, audit research, audit standards, information technology, strategy, government relations, academic relations and serving the profession.

When this project came out, it came out of the considerations of the Strategic Planning Committee when I was the Chairman of it a few years ago.

We had first gone through the Visioning Project and we involved so many of you, over 3000 members, 170 future forums, and we got this Vision out of the process.

You recall that we outsourced this. And Jeanie Patton came in and Gideon did this work so that the leadership of the Institute would stay out of the way and this would truly represent the Vision of members.

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2                   When the Strategic Planning  
3 Committee got this Vision, we tried to interpret  
4 what we thought it meant.

5                   And what we saw the members say  
6 in this Vision was that they aspired to move to a  
7 broader array of services and to higher valued  
8 services.

9                   We then tried to figure out how  
10 we could help the members implement this Vision  
11 as they had developed it. And we had extensive  
12 brainstorming sessions. We considered many, many  
13 alternatives and opportunities.

14                   And the Strategic Planning  
15 Committee, I want to point out, is almost all  
16 made up of members like you and me. This is the  
17 members talking about how we could help the other  
18 members implement the Vision.

19                   We looked at the CPA and we  
20 looked at some of the problems with trying to  
21 actually stretch the CPA into that space.

22                   One is that it is a statutory  
23 license and we don't control the definition of  
24 the CPA. It's controlled by the states.

25                   The experts told us that there

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would be difficulty in stretching it as far as is needed to recognize and realize the whole Vision; not that it couldn't be stretched, we are stretching it, but it couldn't be stretched that far.

To the extent this was to be a global opportunity, the CPA is a national -- really state, but at best national credential. It doesn't get you all the way to the global level.

And in no way would stretching the CPA solve the fundamental problem that so many of us are concerned with, which is the decreasing attractiveness to young people coming into the profession.

Fewer and fewer young people are willing to take an audit curriculum, get audit experience and pass an audit examination if their end goal is to be a consultant, tax consultant, a technology consultant, anything other attestation.

And yet when you look at our entire membership of 340,000, on a full-time equivalent basis probably no more than ten percent of our members are actually involved in

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the licensed practice, the attestation of financial statements. Most of them are already outside of the license space.

And all of these are reasons that the Strategic Planning Committee thought that trying to stretch the CPA, although we should do the best we can to do that, would not fully permit our members to realize the Vision.

And gradually out of these brainstorming sessions and with consulting help, the idea of a new credential emerged.

Now, it's one thing to think up these things in a smoked-filled room. It's another thing to find out whether they have any validity in the marketplace.

And that led to an eleven country research which we reported to you at prior meetings, and then the more in-depth research in the United States which we reported to you at the Regional meetings and then again at this meeting in summary.

This research validates the concept. It says that the customers would prefer to have an XYZ if one existed, and not only that,



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they would be willing to pay more money to get an XYZ as either a consultant or an employee.

It says that professionals will seek the credential.

We were concerned about the effect on the CPA pipeline, that this would attract CPA students away. But the work done by Scott Taylor indicates amazingly really that the availability of the XYZ would actually give a lift to the number of students who thought well of and were attracted into a CPA career.

We looked at these research results. And you saw Beth Allen present them the other day, on Sunday. Now, Beth is a very emotional person and she was really demonstrating her emotion very obviously in front of us. Right?

(Laughter.)

MR. ROBERT ELLIOTT: Pretty dry; just the facts, ma'am. Right?

The other day one of us asked Beth what about these results, are these the normal results, are these on the high side, on the low side.

And in her inimitable emotional

2 fashion she said, in fifteen years of doing this  
3 type of research I have never seen results this  
4 strong for any product or service.

5 That's what the researchers are  
6 telling us.

7 Now, we have a choice.

8 We have a choice at this point  
9 as Council. And that choice is either to submit  
10 this opportunity to our members or to kill it.  
11 That's the choice that is before us tomorrow: to  
12 give it to our members to let them decide, or to  
13 kill it.

14 If we give it to our members and  
15 they pass it, what benefits would come about?

16 Well, one benefit is that they  
17 would have the option, not the necessity, the  
18 option to get a new credential which would  
19 position them to take advantage of this enormous  
20 new space.

21 The cost that they would incur  
22 would be costs that they chose to incur  
23 personally. The AICPA would not be incurring any  
24 cost once this is kicked off by the members.

25 This would be completely self-

2 funded by these XYZs. There would be no loans  
3 from the AICPA, no subsidies and no guarantees.

4 If you had a situation in your  
5 clients where you had such enormous costs with  
6 such nominal -- such enormous benefits with such  
7 nominal costs, you would tell them to go for it.

8 So where are we? We have this  
9 huge opportunity that can be realized only if we  
10 submit this to the members, and if they approve  
11 it, then we will go forward.

12 If they disapprove it, it will  
13 be done and that will be their choice.

14 We, as Council Members, have a  
15 once in a generation, if not a lifetime,  
16 opportunity to put the AICPA in a leadership  
17 position and I say let's go for it.

18 (Applause.)

19 MR. MICHAEL RAYNER: Thank you  
20 very much, Bob.

21 We now move into round two and I  
22 will just restate the way in which we are going  
23 to operate here.

24 We are going to invite a panel  
25 member from one team, and we'll start with the

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con team, to address a question or a comment to a panelist on the other team.

Once that designated panelist has responded, his or her team members will be able to add comment.

And once those comments have taken place, the team that has just responded will have an opportunity to place a question to the other team.

So we are kicking off with the con team addressing the first question. And please designate who you would like to respond.

MR. GERALD SOKOLSKI: I'd like to hear Bob Elliott's response on this.

I understand from what you said about stretching the CPA brand.

The question I have though is why can't we educate students of all the possibilities that are open to them for a career once they have taken the CPA courses, obtained their CPA license - which as we've all been told and we agree that the CPA is the highest respected professional in the business community - and with that training that they

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receive early on in their accounting years, that a whole variety of business opportunities are open to them?

In other words, getting back to the point they don't want to become a CPA because it's not very exciting and there's not a whole lot to do, that it's just in the area of attest services.

MR. ROBERT ELLIOTT: Well, we all went through that process ourselves and took an audit curriculum, experienced an examination in order to get where we are. And, of course, it was worth it to us because it did open up enormous opportunities.

But that's not the point. The point is what the students are thinking and what they're doing and how they're voting with their feet.

And increasingly what they're saying is that if they want to be something other than an attestor, this is not the way they want to go.

Now, think about this. Let me ask you this question.

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We all say what's the big deal if they go through the CPA course to get where they want to go.

Suppose you wanted to become an information technology consultant and suppose that in order to do that you had to first become a lawyer, an attorney-at-law, go to law school, do your apprenticeship, pass the bar examination in order to become an information technology consultant.

Number one, does that make any sense? Because it's irrelevant to where you're going.

And number two, how many young people would do that?

And that's -- I mean that's just an analogy. But that's in effect what you're asking these young people to do if they want to become a tax consultant, a technology consultant, human resource consultant, financial planner, the things that are done by so many of us in this audience.

When we tell the kids in order to be able to get to that point, you have to

2 become a GAAS/GAAP expert, they're saying "no  
3 thanks." That's just the fact.

4 MR. JAMES CARR: I would like to  
5 address more the issue of the branding.

6 And, again, I think that no  
7 matter how much money you would throw at a  
8 branding or some sort of publicity to improve the  
9 image of the CPAs to the students, all of that  
10 would be for naught really when presidential  
11 candidates stand up and refer to bean counters  
12 and late night talk show hosts refer to bean  
13 counters.

14 My point here is it's a  
15 stereotype. It's not just an image. A stereotype  
16 is extremely, extremely hard to break. It's in  
17 the society.

18 And I personally think that it's  
19 ingrained in these young people and it's going to  
20 be very, very difficult to change that  
21 perception.

22 MS. VIRGINIA STANLEY: I have  
23 two comments.

24 The first one is I heard the  
25 Scott Taylor research tell you that the XYZ will

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help, not solve, but help with the student issue.

Just like in good tax planning where we achieve the best results by taking several different approaches, I think we are going to solve the student and the eye of the needle problem with several different initiatives.

I believe the XYZ will help. I don't believe it's going to solve.

Comment number one.

Comment number two speaks a little bit more to what Jim just said, and that is that part of the student problem also exists in this room.

I sat with the Illinois delegation at lunch yesterday and one of the members said, you know, until we go home and we quite complaining about hours, until we quit referring to how hard we are working, how many hours we put in, what's wrong with what we are doing, we are not going to change those kids' perceptions.

And so I ask that part of the solution to this problem be that each one of us



2 leave this room and go home and talk a little bit  
3 differently, a little bit more positively to the  
4 kids that we know, to our kids, about what it is  
5 that we do.

6 MR. MICHAEL RAYNER: Thank you  
7 very much.

8 Now it's the turn for the pro  
9 team to put a question to one of the players on  
10 the con team.

11 MR. JAMES CARR: Thank you.

12 My question would be to Gerry.

13 Gerry, as the Chair of the  
14 Indiana CPA Society as well as I'm sure all of  
15 the other chairs of the state societies that are  
16 up here and out in the audience, so oftentimes we  
17 hear criticism from our membership not just at  
18 the state level but the national level, that they  
19 make decisions at the leadership level without  
20 consulting or allowing the membership to talk.

21 Why then do you oppose putting  
22 the AICPA membership to a democratic vote?

23 MR. GERALD SOKOLSKI: I don't  
24 really oppose putting the AICPA membership to a  
25 vote.

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2 I guess, again, we are  
3 representing our members, and in terms of your  
4 comment about the fact that the leaders make the  
5 decisions without disseminating, again, we in New  
6 York did, in fact, send out a detailed survey to  
7 all of the members.

8 And basically we're taking an  
9 approach right now in our fiduciary  
10 responsibility that it's our obligation to  
11 support the views that came through from that  
12 survey and not necessarily our own personal views  
13 which may be different.

14 Secondly, in New York State, and  
15 I'm quite sure you do it in other states, in the  
16 fall we tour all of the chapters. And at each  
17 chapter we give them an update of what's going on  
18 at the state level and a variety of other areas  
19 of importance and interest to them.

20 In New York State, for example,  
21 trying to get the UAA bill passed.

22 In those visits, no matter what  
23 we talked about during the period, most of the  
24 questions that came from the floor afterwards  
25 related to this concept.

2                   So I don't necessarily think  
3           that -- we are definitely not against letting the  
4           entire membership vote. I think it's a matter of  
5           trying to educate them, get enough information  
6           out there so they understand the whole project  
7           and then let them vote the way they want to vote.

8                   MR. VINCENT VILLINSKI:   Yes.

9                   I guess I might add similarly  
10          Illinois surveys. And as I mentioned, the  
11          numerous discussions I had with people did not  
12          give you the feeling in Illinois that there are  
13          people wildly interested in doing this.

14                  It being a hard hat state, I  
15          can't imagine that it's extremely different than  
16          a lot of other states in that same area.

17                  Whether we just tend to be more  
18          vocal I'm not sure. But, nevertheless, it's a  
19          real problem. It's a real problem in the minds of  
20          the people in Illinois.

21                  Similar to Gerry, I don't  
22          necessarily want to stop anyone from  
23          democratically voting on anything.

24                  On the other hand, I think if we  
25          are going to democratically vote on that, we need

2 to do more than just a few campaigns here and  
3 there, a few people out in the states talking to  
4 the members who happen to show up.

5 I think we really need a full  
6 type of situation where you got state society  
7 members, you got the AICPA leaders, you've got  
8 the folks in the states who are interested in  
9 this situation, to better understand the AICPA  
10 position and for the AICPA to better understand  
11 the state folks' positions and the members'  
12 positions, particularly the smaller and mid-sized  
13 practitioners who seem to be -- when I said  
14 venomous before, I was not kidding.

15 The responses you get back on  
16 those surveys, particularly from the small and  
17 mid-sized practitioners, are that bad.

18 And I think that's the type of  
19 feedback back and forth that has to go on before  
20 we get to the point where we have a sense of  
21 where all the members are and where the members  
22 have had a chance to express that sense to us.

23 MR. EDDIE SAMS: I'm not  
24 speaking for North Carolina firms when I say  
25 whoa. In fact, I asked my delegation if they

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would just make sure I had a seat at the table when I finished.

(Laughter.)

MR. EDDIE SAMS: I don't object to votes.

I'll tell you what I was impressed with, and being from the south, I'm almost conscious when I'm beside two friends from the north.

But when I saw the Illinois statistics, that gave the comparison of their response to the same for New York, that did catch my attention.

But, obviously our North Carolina delegation will sit and decide which way we will vote, and I assume that will happen tomorrow.

MR. MICHAEL RAYNER: Thanks very much.

Now it's an opportunity for the con side to present a question to one of the panelists on the pro side.

MR. EDDIE SAMS: I've got one question.

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Could someone describe the XYZ major for me, as to where that would be offered and how you would get into that major?

I'll hand that over to Ms. Stanley.

MS. VIRGINIA STANLEY: I did a presentation at our fall private profession luncheon last year and I described the XYZ concept.

The entire accounting staff at the University of New Mexico came up to me and said: We are going to have to rethink how we approach business education and accounting education, aren't we?

And I looked at them and I said: Exactly. It's part of the fix.

I don't think it's going to be an entirely long and difficult process. I do think that the educators are aware that changes need to be made.

I know that discussions are taking place both at the Institute level and at the university accounting professor level for those accounting professors who have heard of

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this.

So not being in education, I can't speak to it any more than that, but other than to say I do know discussions are taking place as we speak.

MR. ROBERT ELLIOTT: Obviously, there have to be some changes in accounting education.

I've spoken as recently as last week to business deans and they see this as an opportunity really to differentiate their programs and their institutions and they are actually looking at this as an opportunity to maybe leap frog some of their competitors in the business education and MBA space.

So I think the formal preparation is just one aspect of this.

The other aspect is in continuing education. And that is the key to all of this.

I mean there isn't one person in this room who has succeeded just based on what he or she learned in formal education. We have all gotten most of our relevant and valuable training

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on the job and through continuing education.

That's where the heavy duty, world-class infrastructure of knowledge sharing for the XYZ comes into place.

That's where I think a lot of the competency assessment and development will and must take place.

And so we have to look at that as a key factor in building the competencies for the XYZ as well.

MR. JAMES CARR: I look at the XYZ credential as a stepping stone also from the base of some of the different careers and different professions that exist out there now.

I see it not only as an education process, but as based on, like Bob said, core competencies, in other words, experience.

And, further, that the XYZ credential also has to do with a common set of ethics. And so I think XYZ is much more than just simply education. It's also competence, in other words, ability and experience, and it's also ethics.



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MR. MICHAEL RAYNER: Thanks very much.

Now we have an opportunity for the pro side to ask a question of one of the members of the con team.

MS. VIRGINIA STANLEY: This question is for Vince, although I would ask Gerry and Eddie to generalize it if it does not apply to them, if they hold any other credentials.

Vince, there are at least, I believe, four people up at these tables who have MBAs and probably many of the people in the audience who have MBAs, just like you.

Do you think that this combination of CPA/MBA has hurt or helped your career, and having that second credential, the MBA, could you tell me how it has devalued the CPA credential?

MR. VINCENT VILLINSKI: I'm sorry. Did you say "devalued?"

MS. VIRGINIA STANLEY: Yes.

MR. VINCENT VILLINSKI: Okay.

Yes, I do happen to have a CPA and also an MBA.

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2 I think, when I thought back  
3 upon it, the MBA has certainly helped in certain  
4 areas, particularly since I've been involved in  
5 the financial services area for a considerable  
6 part of my experience.

7 That particular course of study,  
8 if you will, I think tends to be accepted well  
9 particularly in the financial services area.

10 I think that combination, the  
11 combination CPA/MBA, is something that is a plus.  
12 I have no doubt about that.

13 I don't think necessarily that  
14 you can apply that then to another credential  
15 similar to an XYZ or whatever that may be.

16 It took -- I believe it took  
17 years of time for the schools to adapt the MBA  
18 program and to build up the reputation that comes  
19 behind that particular degree from that  
20 particular school. And there's a lot of that in  
21 an MBA. It's not just an MBA. It's where did you  
22 get the MBA from.

23 And I think those two together  
24 give people the idea that you've spent some time  
25 in the business.

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2                   They also, I think, are then  
3 going to ask you, which will be the critical  
4 questions, is have you done this before, how  
5 successfully have you done it, where you have  
6 done it, and whom have you done it with.

7                   And those, I think are the key  
8 questions. The answers to those questions are  
9 what decide people. The designation gets you in  
10 the door.

11                   MR. EDDIE SAMS: I would  
12 generalize the same with our firm.

13                   First, I have just the CPA. And  
14 I'm damned happy I got that.

15                   (Laughter.)

16                   MR. EDDIE SAMS: If you look at  
17 the success within our firm of the partners, I  
18 could not always draw a direct correlation  
19 between their success and their degree because  
20 one that it does not always measure is the drive  
21 that person has.

22                   But we are very much interested  
23 in credentials and very supportive of additional  
24 credentials.

25                   But we want to see these in

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litigation support. We want to see these in business valuation. We want to see these in areas that compliment the industries and functional areas we are trying to grow.

Certainly all of the kids we are hiring today are, they have the Masters of Accounting.

And as I listened a while ago to the description, what you are talking about with the XYZ should all be in the MBA program and to a large extent should be in the accounting program.

MR. GERALD SOKOLSKI: Well, I can also say that I do not have my MBA. If I have any kind of training along that line, it came through the experience I gathered as I went through.

However, I still think it hasn't hurt me. I think I've become very successful as well as our firm.

But I also will not deny the fact that coming out of college at the MBA probably gives you a little bit of an edge on the competition when you first start out.

I also agree that it's not so

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much the MBA but how you practice. One of our younger partners in our firm has about every degree and actual designation that the AICPA has issued, in the area of valuations as well as he being a formal - one of our partners who specializes in international taxation.

He is one of the only partners out of the thirteen in our firm that does have his MBA, but he became a partner only after he left PW and joined our firm.

So whether or not that makes a big difference, I think -- and I agree with what Eddie said -- that it's really how you present yourself with what happens afterwards.

MR. MICHAEL RAYNER: Thank you very much.

It's now time to move into round three.

I remind you that in this round Vince and Bob are going to make some closing statements up to about three minutes each.

And in order to determine who will go first, I put another number on a card.

(Laughter.)

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MR. MICHAEL RAYNER: Vince,  
what's your number?

MR. GERALD SOKOLSKI: Eight.

MR. MICHAEL RAYNER: Eight.

Bob?

MR. ROBERT ELLIOTT: Seventeen.

MR. MICHAEL RAYNER: The number  
is three.

Vince.

MR. GERALD SOKOLSKI: Thank you.

Considering that I picked the  
fourteen and then picked the eight, I'm going to  
leave and buy a lottery ticket.

(Laughter.)

MR. GERALD SOKOLSKI: This has  
got to be the day.

At any rate, when I reflect back  
on all of this, given upteen gazillion years of  
experience in the business, and thinking about  
the problems and questions and how they relate to  
me as a CPA, but more importantly as a  
businessman, and what I might tell clients about  
it, I think three questions -- I think I really  
want to leave you with three questions that I

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think need answers.

First, CPAs focus on the numbers. God knows that, we focus on the numbers.

When making decisions about new ventures, the quantitative part of the XYZ business plan is particularly short on meaningful numbers and supporting explanations.

That seems to be unusual for the CPA's professional organization.

Without a clear understanding of the marketing plans and costs as well as the flexibility of financing agreements and the down side of those agreements, it is difficult to support a go decision for any plan.

Approximately \$5 million I believe has been spent already on development costs, and obviously more will be spent as we go into the roll-out phase to the members.

That's not to say whether it will be well spent or badly spent.

I think if helps members understand, it's got to be well spent.

But, nevertheless, there is a real gap in understanding in the planned numbers

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and in the information presented.

Second, with the continuing media and member controversy surrounding the XYZ and The Portal, I believe that pushing for the support of the credential will significantly raise the business risk to the cpa2biz launch.

Cpa2biz relies heavily on the support of CPA practitioners and their firms to bring their clients' needs to the Portal. Our survey results indicate that the very people needed for Portal support are the ones most likely to be upset with the continued development of the XYZ credential.

Why jeopardize two costly initiatives by having the small and mid-sized firm CPAs upset about a designation that they feel gives respectability to non-CPA competitors?

Third, why shouldn't we assume that largest purchasers of the designation will be people who provide services, such as tax planning, business valuations, financial planning, and estate and gift taxation specialists?

Those people have been out there



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trying to get into our markets for years and we are about to offer them a designation that will be similar to something we possess.

I'm not sure that's a good idea.

Is this the completely new profession that the XYZ literature speaks of? Why would I want such a competitive franchise to be offered to non-CPAs?

I think those are the questions we need answers to before we go further.

MR. ROBERT ELLIOTT: Thanks.

(Applause.)

MR. ROBERT ELLIOTT: Thank you.

Both Gerry and Vince said that their members didn't like the XYZ proposal and the more they knew about it, the more they disliked it.

If you look at those survey results, they really show that most of the members were not well informed on the subject and, therefore, their responses to it probably might have been colored by, for example, their view of the name cognitor and so forth. There are various reasons to think that they might respond

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negatively.

Those though that said they were informed may have been getting information from the public press, the accounting trade press.

Ladies and gentlemen, if the only thing I knew about the XYZ were what I read in Accounting Today I would vote against it.

I think you have to then compare that with the Indiana Society where, instead of first asking the question and then telling the members what it meant, they did it the other way around and they had these member forums.

Just across the border from Illinois, in Indiana, they got exactly the opposite results by first informing the members.

In terms of setting up new competitors, one of the things that I think about when I hear CPAs say that, is it almost seems to me like they perceive this as a zero sum game, that is, there is only a fixed pot of professional service fees available and every dollar that an XYZ draws out of that pot is a dollar that a CPA can't have.

That I think is not the right

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way to think about this.

The right way to think about it is creating new economic opportunities.

If you look at the survey results from the customers, what you see is the possibility for an enormous new demand for professional services. And that is strongly supported by what's going on in the marketplace today, which is strongly supported by the increasing complexity and speed of change that our clients and our employers face.

There is an enormously growing pot and the XYZ provides us not with just new competitors for the same old fixed pot, but with the opportunity to get a bigger slice of a bigger pot.

We have the opportunity here to position ourselves for an enormous strategic advantage. We can strike and claim this space. And, by analogy, when we struck and claimed the XBRL space, there was no one in it. We claimed it. The next thing you know eighty major suppliers and users of computerized information around the world jumped on our platform and

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joined us. And we were on the control.

I think it could be the same thing here. If we take control of it, we will be able to direct this thing to meet our high standards of competence and ethics.

I am convinced, based on the reading of the research results, that if the accountancy profession does not do this, someone else will do it.

And Ron Scalea pointed to several alternative suppliers creeping up in the marketplace.

If that happens, it will not be done to our benefit or the benefit of our members and it will not be done to the level of standards that we have.

This project does involve risks, but I think they're manageable business risks and that we can and will insulate the AICPA from fiscal exposure on this.

This will be funded and supported solely by these new XYZs once the members vote to do that.

We cannot possibly know

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everything before we vote. What we have to do is trust to building a proper governance structure and a market responsive system so that this thing will evolve over time into what the marketplace really needs.

Just as the CPA has evolved over time. What we are as CPAs today is very different from the CPA that our predecessors set up for the year 1896 because we have remained market sensitive and we have changed.

And the XYZ will also evolve and change.

So what I ask that you do tomorrow is to consider all of these things, and in the option to either kill this or send it to the members for a vote, I ask that you vote with the California resolution.

Thank you.

MR. MICHAEL RAYNER: Thank you, Bob.

(Applause.)

MR. MICHAEL RAYNER: Now all that remains is to thank our panelists for a truly stimulating and I think very useful

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interventions that will, I hope, help inform you as you think over night about how to vote on these resolutions tomorrow.

I just want to say on a personal basis, speaking as one of the global partners to the project, that you can be sure that the rest of the world is going to be watching your decision tomorrow with great interest.

Thank you very much.

(Applause.)

CHAIRPERSON EDDY: Wait a minute, wait a minute.

Let me just also add my thanks to these folks. They were asked on very short notice and they did a great job.

(Applause.)

CHAIRPERSON EDDY: Secondly, let's don't forget that we have a congressional reception this evening that will be in the Montpellier Room of the Madison Building in the Library of Congress. It will be from 5:30 to 7:30. We have extended the time from 7:00 to 7:30.

When you enter the library, you

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have to go through a security just like you always do at the airport. So be sure to bring your name badge because you need that to get into the building.

A friendly request about the reception tonight and a gentle reminder, that this is an event for our members of Congress, not just for us, and their staff. And they will be seeking you out when you arrive at the reception.

Please make sure that you stand near your geographical banner so that members can easily locate you.

To that end we have asked each state to designate one member from your delegation as the host and have asked that individual to wear a host button throughout the reception and be responsible for greeting members and their staff as they arrive.

Please plan to stay for the entire reception. The Congress will probably be voting this afternoon. So they may be late to the reception. And when they get there, they want to see you.

So please stay for the entire

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reception.

To assist you in locating members of Congress and the congressional staff during the reception, we have colored coded badges. Senators and Representatives will be wearing blue badges.

The Congressional staff will have yellow badges.

And, finally, there will be photographers present at the congressional reception to take your photos of you and your members of Congress.

Copies of the photos will be provided to you as well as to your State Societies to use in your Society publications.

And now we have lunch, a buffet luncheon, upstairs in the Constitutional Ballroom on Level 3 B.

Have a good afternoon.

Thank you.

(Which were all the proceedings at the Third Session of the Spring Meeting of Council, which concluded at 12:15 o'clock p.m.)

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F O U R T H        S E S S I O N

Wednesday, May 2, 2001  
9:00 o'clock a.m.

(A video was viewed by all assembled.)

CHAIRPERSON EDDY: First of all, I presume everybody recognizes that that was video from yesterday by Wil and his video team. And I think maybe Wil was up to three o'clock last night getting that video for us this morning.

(Applause.)

CHAIRPERSON EDDY: And, of course, his team is in charge of all of the other wonderful videos we've had all during Council as well.

You notice the room is a little different. Did you notice that?

VOICES: Yes.

CHAIRPERSON EDDY: The reason the room is a little different is because we wanted to meet in the same room we've been meeting in, but they have another meeting

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scheduled here immediately after ours. So the only way to get this room again, which is big enough for us, was to have their meeting set up for the very next meeting.

So I've always wanted to be like the star of stage and screen, and I feel like today this stage is it.

(Laughter.)

CHAIRPERSON EDDY: I trust everyone enjoyed your Capital Hill visits yesterday and they were very productive I think.

We've heard lots of good reports last night of your visits. And they were obviously very timely.

And Congressman Billy Tauzin's remarks this morning were exceptional I think based on the message he gave us about professional unity and how we can work together to make this profession better with our Congress and our legislators.

I also hope that your visits gave you a sense of pride in the Institute and what it's doing in Washington by so effectively working for the needs of our members and the

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protection of the public interest.

We are looking forward to receiving your feedback on how the Hill visits went and how you would suggest we improve such programs in the future.

Please complete the Hill Visits Reporting Forms which you received for this meeting.

I also remind you to complete the overall evaluation forms for the Council Sessions and the Key Person Coordinator's Conference. We need your feedback to enable us to improve future programs.

Please also remember to return your attendance forms to the Council registration desk. We must have them to verify attendance for reimbursement purposes and also for our official records.

In addition to the Council members, two members of each state are reimbursed as Key Person Conference attendees. So please check with your State Society about reimbursement prior to submitting it to the AICPA.

This morning we will begin the

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program with the presentation of the AICPA Public Service Award, followed by the assurance services update by Al Anderson.

We will then have a discussion and vote on the New Global Credential resolution, a report from the Finance Committee, and then we will close with our traditional Open Forum.

Before we get into our formal program, I would like to recognize two State Societies, the State Societies of Michigan and Maryland, on their achieving their 100th anniversaries this year.

Please join me in offering our congratulations to Michigan and Maryland.

(Applause.)

CHAIRPERSON EDDY: I can't see anything. These lights are really bright today.

At this time it is my pleasure to present the AICPA Public Service Award for 2001.

The Board of Directors established this award to give national recognition to an individual CPA's extraordinary public activities.

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As you know, the Institute encourages all CPAs to commit their time, their skills and leadership abilities to their respective communities because it not only benefits the local community, but the individual and the profession as well.

I'm happy to report we're doing it. According to a recent survey among CPAs, AICPA's members spend an average of about fifty hours a year on community service. My thanks and my respect to all our members for that achievement.

This year's recipient clearly demonstrated the kind of dedication and commitment that are the hallmarks of the profession and deserve our recognition.

The winner and recipient of our Ninth Annual AICPA Public Service Award is Tommie A. Vassel.

Tommie was selected by a panel of distinguished judges from among the fifty State Societies' 2000 Public Service Award winners and nominees.

Our judges were:

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2 Reuben Mark, the Chairman and  
3 Chief Executive Officer of Colgate Palmolive  
4 Corporation;

5 Mac McLarty, the former Chief of  
6 Staff under President Clinton; and

7 Dr. Peter Likins, President of  
8 the University of Arizona.

9 Tommie, would you come to the  
10 podium, please.

11 (Applause.)

12 CHAIRPERSON EDDY: Tommie is a  
13 sole practitioner in New Orleans, Louisiana. As  
14 the brochure we distributed highlights, Tommie  
15 has reached out and made a difference among young  
16 people in the Greater New Orleans area.

17 He has served as a mentor, a  
18 tutor, counselor and role model for many young  
19 people and his volunteerism has extended to more  
20 than sixty hours per month.

21 He has volunteered with Tulane  
22 University for their Children Reading Program,  
23 the Junior Achievement, Boys to Men and the  
24 United Way of Greater New Orleans.

25 He has served as a member of the

1  
2 Orleans Parish School Board, Dillard University  
3 National Alumni Association and the Louisiana  
4 Economic Development Corporation.

5 He is also a founding member of  
6 the 100 Black Men of Metro New Orleans.

7 Professionally, Tommie has  
8 served as President of the National Association  
9 of Black Accountants and the President of the New  
10 Orleans Chapter of the Society of Louisiana CPAs.

11 It is, therefore, my great honor  
12 to present Tommie Vassal with this award.

13 (Applause.)

14 MR. TOMMIE VASSAL: Thank you  
15 very much.

16 First of all, to Chairman Kathy  
17 Eddy, I want to certainly thank you for those  
18 warm and most generous introductions.

19 But I have to tell you as the  
20 late Mother Theresa once said, I feel like a  
21 little pencil in God's hands. He does the  
22 writing, the pencil has nothing to do with it.

23 So I must, first of all, give  
24 all the thanks and praise to God for he truly  
25 orders my steps.

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As a matter of fact, as I was coming down this morning, I dashed into this room to make sure that my tie was on straight and that my hair was neatly in place.

(Laughter.)

MR. TOMMIE VASSAL: And as I was standing in the mirror this lady walks in and she said "good morning." And I politely said "good morning" back to her.

And she looked in the mirror and she said, "You're Tommie Vassal, the Public Service Award winner, aren't you?"

I said: "Yes, I am."

She said: "Well, congratulations."

I said: "Thank you."

And she said: "Are you nervous?"

I said: "No, no. I'm not nervous."

She said: "You know, there's going to be over four hundred of your peers in that room hanging on to every word."

(Laughter.)

MR. TOMMIE VASSAL: I said:



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"Yeah, but I'm not nervous."

She said: "You know, the Journal of Accountancy, they're going to want to take your picture and put it in the magazine. Aren't you just a little bit nervous?"

I said: "No, I'm not nervous, I've done this before."

I said: "Why do you ask if I'm nervous?"

She said: "Because you're standing in the ladies room."

(Laughter.)

MR. TOMMIE VASSAL: And many people asked me last night was I nervous, and I just have the answer for that.

But, seriously, I want to thank the AICPA and the Selection Committee for this very, very special honor. It's very humbling to have been selected for such a prestigious award from my peers.

As one of the organizations that was mentioned that I serve with, 100 Black Men of Metro New Orleans, that mentors and tutors young kids throughout the New Orleans area, they have a

2 motto. And the motto is simply this: "What they  
3 see is what they will be."

4 Growing up I had the pleasure of  
5 watching someone giving selflessly of their time,  
6 always lending a helping hand even if those hands  
7 sometimes belonged to my brother and me.

8 That person I would like to give  
9 a special thanks today. Though she promised me  
10 that she was not going to stand, I'm going to see  
11 that a good friend of mine will get her to stand.  
12 And I want to give much thanks and praise to my  
13 mother who is here with me.

14 (Applause.)

15 MR. TOMMIE VASSAL: Also I want  
16 to give a big thank you to the Louisiana Society  
17 of CPAs for nominating me, and in particular to  
18 two people that are not here but work for the  
19 Society, Al Suffern and Ann Lupo, who put  
20 together an outstanding package of my nomination  
21 which I think really helped me to win the award.  
22 So I did want to thank the Louisiana delegation  
23 led by Grady Haze. We have several of them here.  
24 As Kathy said, the lights are blinding, but I  
25 know they are out there. So thank you to the

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Louisiana Society of CPAs.

Also, someone that I had the privilege of working with when we were trying to save over 75,000 children in the New Orleans Public School System, trying to provide all the needs, the books, the supplies, the salaries for our teachers. And I learned so much from this person as I served on the School Board. And her name is Dr. Linda Stelley who now resides in Washington, D.C. and works with the American Federation of Teachers.

So I would like to acknowledge Dr. Linda Stelley.

(Applause.)

MR. TOMMIE VASSAL: I promised Jay Rothberg that I was only going to take five minutes. So let me rush on.

There's an old song that says if I can help somebody as I pass along, if I can cheer somebody with a word or a song, if I can show somebody he's travelling wrong, then my living will not be in vain.

Ladies and gentlemen, those verses pretty much describe me in what I have

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attempted to do as a person.

I believe that it is so important for each of us to look beyond self, that is, to forget yourself, to totally lose yourself in a great cause. And that does not mean that you do that to the detriment of your own well-being or that of your family and loved ones.

But it means taking on a cause that is greater than self and giving it all you've got.

For me, one of those causes has been the youth of America. I believe it is so important to save our youth.

We can look around in society. We know that saving our youth is not just an African-American problem. It's not just a racial problem, not just a religious problem. It cuts across all the economic lines.

It's imperative that we all step up to save our youth.

I tell you that our kids need mentors. They need tutors. They need you and they need me.

Someone once said if you want

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one year of prosperity, grow grain. But if you want ten years of prosperity, grow men and women.

Now, how do you know when you've found this great cause?

I think there are some things that you should look for.

One, it is when you are willing to give unselfishly of your time and talents, that you are truly committed to others and you try to make their dreams come true.

It is when you are touching the lives of those who can do nothing for you or nothing to you.

It is when you finally stop saying I don't have the time and you make the time.

I remind people everyday that we all have the same twenty-four hours in a day. You decide what you're going to do with those hours.

And, finally, when you know that even one life has breathed easier because of you and your deeds, then you've found that great cause.

I think the late Arthur Ashe put

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it quite eloquently when he said: "From what we get, we can make a living; but from what we give, we can make a life."

I want to close by talking a little bit about the issue that's going to be before us today, the XYZ.

I'm going to leave you with a quote from my high school counselor. He said that we were all blessed with two ends: one to sit with and one to think with.

(Laughter.)

MR. TOMMIE VASSAL: As you all deliberate today, I leave this with you: heads we win, tails we lose.

Thank you.

(Applause.)

CHAIRPERSON EDDY: Tommie, again, congratulations on this well-deserved award.

You truly exemplify what was intended with the Public Service Award, and you are an excellent role model for all CPAs. You deserve the thanks of all CPAs and, frankly, all Americans.

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Congratulations.

(Applause.)

CHAIRPERSON EDDY: We now turn to Agenda Item No. 12, the Assurance Services Update.

We will begin this presentation with a video entitled "Expanding the CPA Marketplace." I hope you find this most interesting.

(A video entitled "Expanding the CPA Marketplace" was viewed by all assembled.)

CHAIRPERSON EDDY: I am now pleased to introduce Alan Anderson, our Senior Vice President of member and Public Interest, who will update you on some of the additional exciting things occurring in the Assurance Services area.

(Applause.)

MR. ALAN ANDERSON: Yes, I do have to wear glasses nowadays in order to do these presentations.

But it's indeed a pleasure to be here today to talk to you about and sort of fill in some of the gaps on this tremendous video

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presentation that really highlights a lot of the things that we are doing in this particular area.

And I think back to Barry's presentation yesterday and want to reemphasize the fact that we have a dual responsibility in this profession, clearly at the AICPA:

To continue to make sure our current systems and processes in place from an audit and attest, self-regulatory environment protect and continue to protect and enhance the public interest in today's marketplace; and

We also have the responsibility in the marketplace to look forward, to look into the future, because the marketplace is changing as we all know. And at the end of the day it's very important to make sure that we are also developing parallel tracks to ensure that we can continue to protect the public interest and also continue to enhance services and products and ideas to our members as we move things forward.

I also got the word from Jay to be brief and sometimes it's hard for me to be brief, but I will try to keep this as streamlined as possible.



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In the presentation or in the video we talked about the Member Innovation Team and the things that are happening in that particular area.

It made reference to restructuring and a whole new process of improvement program. And I'm going to spend just a second talking a little bit about it because I think it's exciting and it's going to create a much more rapid-fire process to develop ideas and innovations to our members.

And I would like to start with the concept -- and our Board of Directors heard this-- the business factoid, if you will. But I'm going to streamline it to three factoid numbers: 51, 5 and 2.3

Fifty-one is the current number of substantial projects that we have going on in the Innovation Teams. And the Innovation Teams are made up of Assurance Services, Consulting Services, Information Technology, Center for Investment Advisory Service, Personal Financial Planning, ElderCare, just to name a few, and Accreditations.

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If we talk to the largest firms in the country, they have told us that they have five major projects going on at any one time.

And the 2.3, that's the average amount of time it takes us to get a project done through the AICPA through our volunteer efforts.

2.3 years in this marketplace, in this economy, is just not acceptable. We have to be much more rapid-fire in the deployment of service ideas so that we can be responsive to the marketplace and the needs from that particular perspective.

So we have made a change. We are going to put in place self-directed work teams in the Assurance area and in all of these innovation areas so that when we decide on a project through the Council, of our key volunteers, we will then make that project a priority and deploy it to make it happen very rapidly and very effectively as we move things forward.

And the model is very similar to the model that was actually outlined in the Special Committee on Assurance Services Report several years ago chaired by Bob Elliott when he

2 basically created a concept of cowboy groups,  
3 where the cowboy groups would get together and  
4 get it done, get the project done, and get the  
5 idea out to the marketplace.

6 We are moving towards that  
7 direction so that we can be much more responsive  
8 in that particular space.

9 When we talk about these new  
10 services, obviously everybody focuses on  
11 assurance services. Without question that video  
12 clearly highlights that that's not the only thing  
13 that we are doing. But without question the  
14 assurance services area has gotten a lot of  
15 headlines and a lot of limelight because they are  
16 moving some things forward fairly rapidly.

17 Just from a standpoint of sort  
18 of setting the stage on that, keep in mind that  
19 assurance service is already an international  
20 effort. We do all of our activity with the  
21 Canadian Institute of Chartered Accountants. It  
22 already is an international perspective.

23 In the Assurance Services area,  
24 if there is one mistake that we made at the  
25 onset, and we knew that there would be mistakes,

2 is that we didn't develop the products in full  
3 life cycle methodology.

4 In essence, like WebTrust. For  
5 example, when WebTrust was developed, we  
6 developed a product that was the end game, the  
7 report, and we didn't develop all of the products  
8 and services that needed to be put in place to  
9 help our members consult in this area, to acquire  
10 the skill sets to deliver this product.

11 Because, in essence, as the tape  
12 made mention of, in the area of WebTrust, it's  
13 not necessarily the number of seals, it's the  
14 number of ideas and the number of products and  
15 services and consulting engagements, if you will,  
16 that our practitioners have brought to their  
17 clients to help them capture and be a party to  
18 the e-commerce space.

19 WebTrust in my view has quite  
20 often been coined as a failure. And I will tell  
21 you today it is not a failure.

22 Without question it was an idea  
23 that was ahead of its time and we have brought  
24 our members into the e-commerce space and it is  
25 now getting some serious traction as we move this

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process forward.

I want to talk briefly about some of these areas. Barry mentioned yesterday the WebTrust for certification authorities. And I think that's a very positive step. But I will tell you that the American Red Cross seal and things of that nature are not certification authorities. We are getting a lot of traction in the WebTrust area where people are actually moving forward to deliver this product to their clients.

And, in fact the best thing that we did in WebTrust is we modularized the approach. It's modular in the sense of, that if you only want Webtrust for privacy, you can get WebTrust for privacy; if you want WebTrust for security, you can get WebTrust for security; or you can get the full scope of the WebTrust engagement if you want.

When the energies and the need for individual security and privacy in the Internet took place, the effort that took place was certificate authority. Certification authorities are the people that basically give

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you the electronic fingerprint that can identify you in the digital space that will then authenticate who you were so that when you go on to a web site and you want security and you want the privacy, your digital certificate will, in essence, guarantee that you are that particular person.

Well, Microsoft has seen that particular aspect. And I want to mention what they've done to reinforce what Barry said earlier today.

This press release, by the way, will be out at the back table at the conclusion of the presentation today. But the press release goes on to say that "...Microsoft...has selected WebTrust for Certification Authorities or its equivalent as part of its program for accepting Certification Authorities (CAs) wishing to distribute their root certificate through Microsoft software. Microsoft's root certificate program allows the hundreds of millions of Microsoft customers to easily shop securely on the Internet, send or receive secure e-mail, or share encrypted files."

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To quote Microsoft: "In order to better protect Microsoft customers from security issues related to the use of PKI certificates, and to generally enhance the end-user experience for Windows users, Microsoft is moving to standardize and tighten the criteria for Root Certificate Authorities in Windows XP and future operating system releases," said John Lambert, Program Manager for Windows 2000 Security.

"WebTrust for Certification Authorities meets our criteria as a rigorous audit of the Certificate Authority practices and procedures. Our CA partners around the world can undergo this audit, allowing us to have a consistent auditing and reporting standard."

We think that this is a significant event in the e-commerce space, and in particular in the digital space as we move things forward. We are very pleased with this. We worked long and hard. It was a collaborative effort. And we think that this is going to put some further energy behind the WebTrust program.

The other thing that we think is very positive in the WebTrust arena is clearly

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privacy. Privacy is - the debate has probably crossed many of your desks, many of your conversations with your Congressmen and Congresswomen yesterday that you talked to. Privacy had to be on their mindset. It's going up and down the hill and people are trying to decide what to do in this area.

WebTrust, as an independent verifier of e-commerce privacy, is a very solid tool to help ensure privacy on the Internet.

And, in fact, if you look at the bottom bullet point, we're also building an off-line enterprise-wide privacy program which is patterned after the WebTrust model, where if you are a financial institution and you are not conducting business over the Internet, we can still assure enterprise-wide privacy in this particular space.

In the area of SysTrust I want to mention one thing because I have a very positive announcement to make today. And there will be a press release on the back table in this regard as well.

SysTrust, as you know, is a



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program that basically attests to the reliability of people's systems. And you can define the system in any way that you want.

It is on-line or off-line from a systems reliability perspective.

This program has taken a life of its own and has been very successful in the very early stages of this process.

And today Microsoft Great Plains Business Solutions is making an announcement jointly with the AICPA. Microsoft Great Plains has selected the SysTrust program as one of the systems reliability standards to which its applications software provider partners must adhere.

To quote Microsoft: "As the outsourcing trend continues and more companies turn to Application Service Providers, we want those customers of Microsoft Great Plains Business Solutions - our customers - to feel comfortable knowing that the organizations hosting their applications are reliable and secure," said Daryl Anderson -- no relative -- CPA, Senior Technical Consultant of Microsoft

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Great Plains.

"SysTrust provides the added assurance that controls are in place as the ASP to protect the system's availability, security, integrity and maintainability. Microsoft Great Plains wants to insure confidence to our partners and customers by requiring our ASP partners demonstrate their systems have been independently reviewed against an industry standard like SysTrust."

Again, I think this is extremely positive. I think that this is, again, going to put a lot more energy behind the SysTrust program. And without question there is a lot of energy behind that program as we speak right now.

The videotape mentioned one thing about SysTrust that I want to elaborate on just briefly.

SysTrust Services Corporation, that is a partner of ours that is helping build a web-enabled tool to allow our members in industry and our CPA practitioners offering SysTrust to better prepare to achieve and realize the success of a SysTrust engagement.

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In this particular situation a member in industry can go to [systrustservices.com](http://systrustservices.com) and they can start using the tool -- after an application process and things of this nature -- but they can use a tool to document where they are in relative terms to the principles and criteria of SysTrust.

When the client or the member in industry believes they are ready to achieve SysTrust certification, they can engage their CPA and the CPA can go to that web site and basically use that information to basically be the starting point to create audit workpapers to help facilitate the completion of the SysTrust Services engagement or SysTrust engagement.

We believe it's like -- it's an online intra-audit process, if you will, and it will reduce the cost of the engagement, it will allow all practitioners, large and small, members in industry from all sizes and shapes and corporations to be able to access one tool that can be used by both them in industry and those in public practice.

That, I think, is very exciting

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from the standpoint that it will get, in my view, our smaller firm practitioners into this space from that particular perspective.

To quickly go over some of these other ones, I do believe that the videotape was very complete and very comprehensive. And I can basically say that without the energies and the effort of tremendous volunteers that get adamantly and very intensely involved in these processes, none of these services would be successful.

I will tell you that the AICPA team members that you saw on that video have worked and put their heart into this program. We are committed at the AICPA and clearly in the member innovative space to ensure that products are delivered timely, that they are responsive to the marketplace, that we will make things successful for you whether you are in industry, whether you are in public practice, so that we can ensure the longevity of this profession, that we are going to be in the right place at the right time, to sort of restate back on the WebTrust model. We were three years ahead of the

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game. But today we are not playing catchup. We are now the leader of this space and we want to be the leader in a lot of these other areas.

With that I thank you very much. I streamlined this fairly quickly, but I know that we have lots of other issues to speak to today.

Thank you very much.

(Applause.)

CHAIRPERSON EDDY: Thank you very much, Al.

The new services that the Institute is launching in corroboration with our international network are absolutely critical to the overall health of our profession and to help our members move up the value chain.

So we are very grateful for your work.

We will now turn to Agenda Number 13, the New Global resolution -- the New Global Credential resolution.

At the regional meetings of Council and at this meeting, you have been presented with the research and a business plan

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supporting our moving ahead with the new Global  
Credential.

You've also heard some new ideas  
on how we might name this credential.

We have come a long way in a  
very short time. Bret Prager said as much the  
same thing in his presentation on the cpa2biz.  
Change at breathtaking speed will be the theme of  
the new AICPA. For us as leaders, this is  
extremely challenging and incredibly energizing.

The challenges come when we must  
make hard decisions on concepts that are in  
constant evolution and whose implementation  
extends far into the future.

Council met those challenges  
when it voted for the CPA Vision, and again met  
that challenge when it voted for cpa2biz last  
May.

What has happened since we  
brought XYZ to you last October?

Well, now we've seen the  
business plan, the competency framework document,  
research on market demand, research on potential  
credential holders, and research on its potential

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impact on student enrollment.

We've also heard, as I've said,  
a new approach to the naming process.

At this point, you, the members  
of the Council and State Society leaders, are the  
only ones who have received most of this  
information. The decision now falls to you  
whether or not we continue down this road and  
whether we ultimately bring this issue to the  
membership for its consideration, its debate and  
its decision.

At this meeting and in the  
months leading up to this moment, we have had  
much discussion on the XYZ credential. As  
leaders, we are all motivated by the same end  
game, to do the right thing for our members, to  
build a strong legacy for the CPAs yet to come.

I trust that whatever decision  
you make here today will be made in that spirit.

Could we have the lights,  
please?

Gerry Sokolski has asked to be  
recognized first to present the resolution from  
the New York State Society delegation.

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Gerry.

MR. GERRY SOKOLSKI: The resolution has already been handed out. So I ask the question do we need to read the resolution or can we just make a motion?

CHAIRPERSON EDDY: You can just make a motion.

MR. GERRY SOKOLSKI: Thank you. Then I will make a motion that the Proposed Resolution for the New Global Credential Offered by Council Members from New York be accepted.

CHAIRPERSON EDDY: Is there a second?

COUNCIL MEMBER VINCE VILLINSKI: Second. I'll second that motion. Vince Villinski from Illinois.

CHAIRPERSON EDDY: Thanks, Vincent.

The motion before the floor is, therefore, the motion distributed on Sunday, Proposed Resolution for the New Global Credential Offered by Council Members from New York.

(The following is the text of



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the resolution:

"PROPOSED RESOLUTION FOR THE NEW  
GLOBAL CREDENTIAL OFFERED BY COUNCIL MEMBERS FROM  
NEW YORK

"WHEREAS, at its October 2000  
meeting, the AICPA Council directed that a  
business plan be prepared regarding the  
Institute's project to launch a globally  
recognizable, interdisciplinary business  
credential (the 'credential project') and that  
additional research be conducted regarding the  
credential; and

"WHEREAS, research on the  
credential project was independently conducted by  
the Institute and several State CPA Societies;  
and

"WHEREAS, the Institute's  
research indicated that while 35% of its  
membership were interested in the credential, the  
interest dropped to only 17% when members were  
informed of the credential's requirements; and

"WHEREAS, the independent state  
society research indicated a significant majority  
of their memberships opposed the credential in

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concept; and

"WHEREAS, international support for the credential project has eroded significantly since its introduction as indicated by the withdrawal of several of the Institutes of Chartered Accountants in other countries; and

"WHEREAS, the delivery of the credential project business plan did not leave members of Council sufficient time to perform a due diligence review of the plan; and

"WHEREAS, the credential project is causing confusion among state legislators currently deliberating the Uniform Accountancy Act; and

"WHEREAS, the credential project and other current, innovative AICPA initiatives have distracted the AICPA from its core purpose and brought into question its ability to act as a standard-setting body; and

"WHEREAS, resources devoted to the credential project should have been directed to a marketing campaign that both better explains to the public the competencies of CPAs and the scope of services they provide and addresses

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issues of the declining recruitment to the profession;

"NOW, THEREFORE, BE IT RESOLVED:

"That the AICPA Council hereby directs that AICPA officers, directors, and staff immediately cease all efforts to furtherance of the credential project and that any Council action on the credential project be postponed indefinitely.

"RESOLVED FURTHER:

"That all resources currently proposed to be spent to support the credential project instead be, and they hereby are, redirected for a marketing, communication and education program to (1) improve awareness and perception of the CPA profession among the public in general and high school students in particular as to the range of services provided by CPAs, and (2), increase the enrollment of students in accounting programs for the pursuit of the CPA certification.

"RESOLVED FURTHER:

"That the officers, directors and staff of the AICPA are hereby authorized and

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2 directed to take any actions necessary to carry  
3 out these resolutions.")

4 CHAIRPERSON EDDY: As I  
5 announced on Monday, we also have a joint  
6 resolution from the California and Texas Society.  
7 It is my understanding that they plan to submit  
8 that resolution if the New York resolution fails.

9 Also let me just say in  
10 addressing the body, I would appreciate very much  
11 the members being respectful of the other  
12 members' time and keeping their remarks succinct  
13 and on target.

14 We are now open for discussion.  
15 Yes, sir.

16 COUNCIL MEMBER TED MANDIGO: Ted  
17 Mandigo from the State of Illinois.

18 I was encouraged by the  
19 Assurances update presentation and the IT  
20 credential and other information recently  
21 presented.

22 I have several problems with the  
23 XYZ concept.

24 The numbers among them are  
25 challenging. To achieve the membership levels

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2 that are projected would mean that, if you look  
3 around, either you or the person next to you  
4 would form the initial core membership, one of  
5 two people in the AICPA out of a 330,000  
6 membership, minus those that aren't qualified  
7 because of level of experience.

8 And then within a five to seven-  
9 year period thereafter you would have three non-  
10 CPAs as members of that same organization to sit  
11 with you in the XYZ organization.

12 Those initial members have the  
13 benefit of a lower membership fee. The non-CPA  
14 members are coming in and paying \$450 membership,  
15 a \$450 conference fee and a \$95 CPE fee, plus the  
16 accreditation renewal as they go down the road.

17 With the control and standards,  
18 code of conduct admissions, CPE requirements and  
19 the structure of the organization established by  
20 the XYZ and the Academy under the guidance of the  
21 AICPA.

22 It must be -- the organization  
23 must be a democratic organization and it must be  
24 inclusive as others join.

25 Who are these non-CPA members?

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These are IT consultants, human resources, lawyers, business consultants, expert witnesses, valuation, PFP and related fields; and if I believe the expanded base on which the numbers are predicated, architects, engineers and a variety of other professions.

It sounds like Accensure to me, consulting arms of the Big Five and other organizations that should have been active in the Society and brought in under the umbrella years ago, but we, as firms and as a Society, don't know how to accommodate, serve, integrate and meet the needs of these groups. So they leave.

Have we changed? I hope so for our sake. For if we haven't, how long will the 400,000 non-CPAs stay under the Academy dominated by the AICPA? Will they walk?

We spent \$1.5 million to date. We spent the time and efforts of staff, including John Hunnicutt and many others, and your very valuable time as well in promoting the program.

We are budgeted for another \$3.14 million this year. We are set for a \$30 million loan unsecured to sponsor the kickoff of

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the organization, and we are seeking \$70 million from other sources to fund the initial work of this organization.

It must work. It relies on the revenues from those 617,000 members to support a \$90 million a year budget or the organization will be left holding the bag.

I'm not against a program of outreach, integration, accreditation, specialization and the other areas that we've worked diligently to expand. I think that that's the right direction.

And with outreach to integrate our CPA firm consultants, non-CPAs, within the organization and related organizations I think that we have some opportunities to continue to expand the CPA practice areas as outlined in the presentation on the Assurances update.

I am challenged by the numbers that are presented. I think they are highly optimistic and challenging.

Therefore, I cannot support the resolution.

CHAIRPERSON EDDY: They're all

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lined up in the same line. This is easy.

COUNCIL MEMBER ANDY GUYETTE:

Andy Guyette from Vermont.

We appreciate the Institute's hard work and efforts on behalf of CPAs and urge the Institute to continue their efforts promoting CPAs and the profession.

We in Vermont feel the XYZ is not the way to accomplish this.

This was not just a Board decision. We made every effort to inform our members about the XYZ. Last year at our annual meeting John Hunnicutt gave a presentation and engaged our members in lively discussion which could have lasted most of the day.

Since then we have discussed the issue at quarterly meetings to ensure we had opinions from informed members.

The main message we received was we pay dues to the CPA Society, use our dues to support CPAs and not to legitimize our competition.

We feel the student recruitment and the information programs are good and



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positive steps forward and this is where the future of the profession will come from.

Thank you.

CHAIRPERSON EDDY: Next in line.

COUNCIL MEMBER HARVEY

SONNENBERG: I'm Harvey Sonnenberg from the State of New York.

I just had a couple of observations that I wanted to share with some of my fellow Council Members.

There has been talk in recent days about surveys and validity of surveys and how questions were phrased.

But there were two very specific questions that were in the surveys that were distributed to all of our members in this room.

I refer to the 400 person AICPA survey. The question was asked, question 42: Would you try to achieve the credential? The overall response rate was 64 percent no.

It was further broken down by 69 percent in public accounting saying no, 57 percent in industry saying no, 75 percent in

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2 education saying no, and 80 percent in government  
3 saying no, but 40 percent in the consulting  
4 capacity saying no. But overall two-thirds of the  
5 respondents to that question did say no.

6 In the New York State Society  
7 survey that was distributed to all of our 32,000  
8 members, there were more than 6,000 responses.  
9 Question 14 in that survey said: "Do you think  
10 it's advantageous for the CPA profession to have  
11 a professional designation that is also issued to  
12 other non-CPA professionals?"

13 Eighteen percent said yes, 82  
14 percent said no.

15 Why does it make sense to spend  
16 our resources on a credential that our membership  
17 doesn't want?

18 Another observation.

19 We've heard that students would  
20 be very interested in becoming XYZs and that this  
21 would be an attraction for young people.

22 So why as a student would I want  
23 to become a CPA? I'd sooner be an IT major, take  
24 XYZ curriculum courses that are to be defined and  
25 spend my time in the ninety percent space that is

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presently occupied by CPAs. It would make virtually no sense to become a CPA.

We are shooting ourselves in the foot; we are destroying our profession.

I really believe that we should support the New York resolution and abandon the credential.

I have one further question. And my question is how much money does the Institute intend to spend for the balance of the year in support of this grassroots effort for the XYZ credential.

CHAIRPERSON EDDY: The education program or -- is that what you are referring to? The education program?

COUNCIL MEMBER HARVEY SONNENBERG: Yes, the education program for the membership indicating what all the details are for the proposed credential.

CHAIRPERSON EDDY: I believe the number in our budget for next year is \$1.9 million.

COUNCIL MEMBER HARVEY SONNENBERG: Thank you.

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CHAIRPERSON EDDY: Bill.

COUNCIL MEMBER BILL BALHOFF:

Thank you.

I'm Bill Balhoff. I'm currently  
the Chair of the PCPS Executive Committee.

PCPS actually represents  
approximately 6,300 CPA firms across the country,  
primarily small, medium and regional size firms.

The Executive Committee actually  
asked the Institute staff to deliver a full  
briefing to our Committee meeting in April on XYZ  
to determine the effects on our member firms.  
They did so.

We also had access to the  
research and we debated the issues involved.

I'm here on behalf of the  
Executive Committee to give you the results of  
that discussion.

They actually voted to support  
the proposed resolution -- I suppose right now it  
would be California's and Texas' -- that would  
support moving forward on the XYZ.

The reasons are as follows:

First, we actually at the PCPS,

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we did a survey of MAP basically of small firms. The number one issue, not surprisingly, was staffing. The research obviously indicates that the XYZ designation would boost student recruitment. XYZ not only measurably increased college students' interests in entering our profession, it also increased their interest in pursuing CPA, showing that it was not an exclusionary issue of one or the other.

The second, many of our firms employ currently non-CPAs that provide consulting and other non-traditional services. We believe those talented people would benefit from a professional credential, and with that credential a code of conduct, CPE requirements and other hallmarks of our profession.

Thirdly, there is the concept of added value. The research shows the market perceives a value in this designation, value that can be realized in increased fees for services. And we believe our member firms, even the smallest firms, could benefit from this.

The Executive Committee wholeheartedly supports the continuation of the

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Image Enhancement Campaign for the CPA designation.

Further, we support and encourage the Institute to inform all CPA firms of the details of the XYZ designation and its development as part of the member information and response program.

The Executive Committee sees XYZ as a long-term investment in the success of CPA firms. It's one thing that we think is our mission.

It is in that light that we would encourage Council to support the Texas and California resolution.

Thank you.

CHAIRPERSON EDDY: Thank you, Bill.

Tom.

COUNCIL MEMBER TOM VISOTSKY:  
Thank you, Kathy.

Tom Visotsky from Virginia.

I'm in support of the Global Credential for a couple of reasons.

The first one is kind of

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personal. I figured if the Global Academy awarded me an XYZ, I could finally say that I had received an Academy Award.

(Applause.)

COUNCIL MEMBER TOM VISOTSKY:

But in all seriousness, I do not believe in the philosophy of do as I say but not as I do. I believe in the opposite of that.

And some of the comments made yesterday in the panel discussion related to the fact of questioning that the stretchability of CPA can only go so far. And the comment was made by a panelist that that was absolutely false.

I find it very interesting that the panelist's firm, of which I'm an alumnus - I have nothing against them - has not used CPA in any of their advertising for probably ten years.

This -- I would contend that they do not do this for the stretchability of their own brand, of their name, but not CPA.

I think the Global Credential would allow others to compete with the Big Five firms that are already stretching their brand and this would be an opportunity to stretch a

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combination of the CPA and an XYZ.

And I've also conducted several town hall meetings in Virginia and found that once the members found out more about the XYZ and discussed the pros and cons, that they were overwhelmingly in favor of it.

CHAIRPERSON EDDY: Vincent.

COUNCIL MEMBER VICTOR RICH:  
Victor Rich, New York.

CHAIRPERSON EDDY: Oh, I'm sorry.

COUNCIL MEMBER VICTOR RICH: I'd like to ask two questions.

The first one deals with the report of the Independent Public Accountants on applying agreed-upon procedures that was submitted by J. H. Cohn on April 23rd, upon which a lot of these projections were based.

And they say they looked primarily at the IPG surveys as a basis for issuing their report on the projections for membership in derivation of revenues.

And I would like to know as my first question: Was J. H. Cohn given the results



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of the surveys from New York State, Illinois and the Washington, D.C. area? That's the first question.

Were they even made aware of it is the second question.

CHAIRPERSON EDDY: Were J. H. Cohn made aware of the New York and Illinois surveys?

COUNCIL MEMBER VICTOR RICH: Yes. And were they -- and the Greater Washington area surveys -- and were they given the results.

CHAIRPERSON EDDY: And their work regarding the special engagement that Judy referred to on Sunday?

COUNCIL MEMBER VICTOR RICH: Regarding their report on the independent -- applying agreed-upon procedures which was the basis for the projections.

CHAIRPERSON EDDY: We don't know the answer. We can ask them whether or not they were given that information.

Judy, do you know?

MS. JUDITH TREPECK: No.

CHAIRPERSON EDDY: We don't

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know. We can ask them.

COUNCIL MEMBER VICTOR RICH: And the second question is: These projections which show surplus revenues occurring only through the years seven through ten. What happens if there is a shortfall, especially in the early years? What kind of contingency plans have been developed to protect against the failure of the XYZ?

CHAIRPERSON EDDY: If I can ask Judy Trepeck, who is the COO of the Global Credential Steering Committee, to answer that question, please.

Judy?

MS. JUDITH TREPECK: In fact, what we have are contingency plans with a secondary marketing plan that is a much smaller build. It's about half of the cost of the marketing plan that you see in the cash flow projections.

And it would get us where we need to go over a longer period of time at a slower pace. But we have provided for that contingency of less than projected membership build.

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COUNCIL MEMBER VICTOR RICH:

Thank you.

CHAIRPERSON EDDY: Wayne.

COUNCIL MEMBER WAYNE HARDING:

Thank you, Kathy.

Wayne Harding, Council Member  
from Colorado.

On behalf of Colorado, we are  
one hundred percent behind the XYZ designation.

Let me make some personal  
comments behind that.

One is, being an innovator is  
always tough, and risk -- without risk the world  
would be boring. And this is a very risky  
proposition. I admit that.

But so what we do is, based upon  
my experience for the last eleven years in  
marketing and hi-tech product development, is we  
go out into the market and we focus not on us, we  
focus on "they."

And "they" in my mind consists  
of two things.

One is the marketplace. The  
marketplace is asking for this service.

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The question we have to ask: do we step forward and provide this service or let somebody else do it? Number one.

Number two, "they," they being the students. Within Colorado we've had a big effort this year to attract the best and the brightest -- more than the best and the brightest -- to our profession.

The survey that I saw that dealt with this area from the American Institute of CPAs resoundly says that, yes, students will be much more attracted to this profession if they also have capability of becoming an XYZ.

Take some risk. We can't foresee the future, but we know what the population is asking for today, and that is for us to have some guts and get behind XYZ.

Thank you, Kathy.

CHAIRPERSON EDDY: Next.

COUNCIL MEMBER LUCRETIA MATTSON:  
Lucretia Mattson from Wisconsin.

Two comments.

When I look around the room, my guess is the average age for Council Members is

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2 over 50.

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Where are the 22 to 35 year old voices?

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What does the younger generation think? What do they want to do with the profession? We owe it to them, a fiduciary responsibility, to let them express their opinions.

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What do they think? What do they want to do with the profession as well? They are the future of our profession and we need to hear what they want and what they think on this topic.

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Number two, I work on a daily basis with the juniors and the seniors at the University of Wisconsin-Eau Claire. They're graduating in three weeks and they are excited to join the profession. They're going out in all segments.

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They want to be challenged.

Before I flew in here on Saturday for this meeting I attended a student organization picnic where many of the graduates from all different years come back. They are excited to be a member of the CPA profession.

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But they were wanting to be challenged. They expect us to provide them with the opportunity to be challenged.

They have learned so much. They asked me about the Council meeting that I was coming to because they know I'm involved. And they are very blunt with me. Their advice to me was: You're over 50, you're not the future. Remember us when you vote about the XYZ credentialling. We are the future. We don't know for sure what's all involved, but we have the right to find out what's involved, to explore this opportunity. We need to know what's going on. We need the education to be able to make a decision for ourselves and our future as well.

I believe we have the fiduciary responsibility to the students, to the younger members of the profession to let them understand what's going on and what the opportunities are because when I go back in fifteen years to this same picnic, I want to be able to look them in the face and say we gave you the chance. Whether it works or fails, we gave them the chance.

I don't want them to ask me what

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were you afraid of.

(Applause.)

CHAIRPERSON EDDY: Jeff.

COUNCIL MEMBER JEFF GREENE:

Thank you, Kathy.

As you can see, I'm part of that  
AARP generation.

(Laughter.)

COUNCIL MEMBER JEFF GREENE: I

also have a partner who is not.

We decided to go into the  
financial services area and she decided to go for  
a designation. And she did. And she picked it out  
and took the classes and passed it.

And when she was finished, I  
asked her why she picked this designation. She  
said: based upon her research, that this is the  
designation that our clients knew about and  
understood. And that was not PFP, folks. That  
was CFP.

If we are going to go forward  
with a designation, I want it to be our  
designation. I don't want my younger partners to  
pick a designation of some other organization

2 because that is what the public understands.

3 So, therefore, I suggest that we  
4 do go forward with it and we hear from our  
5 members.

6 The second part of it is our  
7 members. This is an organization that is member-  
8 driven. I believe our members should be given the  
9 opportunity after being fully informed to make an  
10 informed decision.

11 I've heard five states having  
12 either polled or surveyed their members. What  
13 about the other forty-seven that have not? And  
14 Florida is one of those who have not.

15 And before I can make a decision  
16 to vote it up or vote it down, I need to hear  
17 from my members.

18 And I think that that's what the  
19 original proposition is.

20 Again, therefore, I recommend  
21 that we go forwards, inform our members, and let  
22 them make the final decision.

23 Thank you.

24 CHAIRPERSON EDDY: Jeff, if you  
25 could identify yourself for the record, please.



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COUNCIL MEMBER JEFF GREENE: Oh,  
I'm sorry. Jeff Greene from Florida.

CHAIRPERSON EDDY: Thank you.  
Everybody needs to identify  
themselves, please, at the microphones.

In the back. You were here  
first.

MR. GARY LUBIN: Thank you,  
Madame Chairman.

My name is Gary Lubin. I'm an  
executive at Brook Capital Ventures, a subsidiary  
of Brook & Co., Inc. I've held a variety of  
positions in both public and private practice.

I've been an AICPA member for  
fifteen years and have been active as a volunteer  
for about half that time.

Presently, I'm the Chair of the  
AICPA's 14-member Business and Industry Executive  
Committee representing the largest segment of  
AICPA members, 145,000 strong.

The Business and Industry  
Executive Committee is comprised of a diverse  
group of members. We work at small, medium and  
large companies, for profit and non-for-profit,

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range in age from our mid-50s to our 30s, and are located throughout the U.S.

Both individually and collectively as a Committee, we have followed the development of the proposed Global Credentialling since its beginning and have been briefed on its progress at all of our meetings.

At our most recent meeting we spent a considerable amount of time understanding and discussing the credential and the surrounding issues and ramifications.

In the end the Committee voted unanimously to strongly recommend to Council that this initiative be sent to the membership for a vote.

Let me tell you why we support this initiative.

First, the credential represents for CPAs in business their ability to combine financial analysis and strategic knowledge to add value to their company.

Second, it provides an optional designation that compliments our CPA and the work many members in industry are already performing.

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2 Third, the new designation helps  
3 address the recognized accounting profession  
4 problem that fewer potential candidates are  
5 entering the profession, a trend that has already  
6 put the profession at a competitive disadvantage  
7 in the workplace.

8 Fourth, the initiative supports  
9 the repositioning and the Vision of the AICPA.

10 Fifth, it's already garnered  
11 support from our members. Independent research  
12 clearly indicates that this is valuable as a  
13 credential to our members in business and  
14 industry, from the Institute's other members and  
15 from executives who run businesses.

16 In addition, the public forums  
17 that we have heard CPAs' voices have supported  
18 this effort.

19 And sixth, it creates a  
20 worldwide measurable standard of business skill  
21 and achievement. Business is no longer becoming  
22 global, it is global. The time is ripe for this  
23 credential.

24 Supply and demand research  
25 results and the feedback that we received is

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compelling. Committee Members agree that they would vote positively with many indicating their interest in obtaining the credential.

Accounting and the AICPA continue to undergo a significant amount of change. The pace is quickening. We cannot wait for change and hope to adapt. We must lead change facing its challenges and reaping the benefits that come with being the leader.

On behalf of the Business and Industry Executive Committee, I strongly recommend to Council to support the Global Credential initiative.

Thank you.

CHAIRPERSON EDDY: Thank you, Gary.

(Applause.)

A COUNCIL MEMBER: A point of order, Madame Chairman.

CHAIRPERSON EDDY: Excuse me?

A COUNCIL MEMBER: A point of order.

CHAIRPERSON EDDY: Yes.

A COUNCIL MEMBER: Would the

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prior speaker please indicate what State he represents in Council?

MR. GARY LUBIN: I'm not sure how to respond to the question.

I'm up here representing the 145,000 members which the BIEC, Business and Industry Executive Committee, represents.

CHAIRPERSON EDDY: I believe I covered that in the opening on Sunday that members of Council, invited guests, State Society representatives would have the privilege of the floor.

Neil.

COUNCIL MEMBER NEIL GIBGOT:  
Thank you, Kathy.

My name is Neil Gibgot. I'm a Council Member from the State of New York.

I want to just say one thing first with regard to what Jeff Greene from Florida said. I agree about the designation. I want to go forward with one of the strong ones.

I think the important thing is that we go forth with a designation that is a CPA designation, not a designation that is something

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other than that.

I believe that the AICPA -- I feel that the leadership under Barry and Kathy, the leaders, who work as hard or harder for the profession than any of us -- I just don't agree with them on this issue.

This issue is not one of big firms/small firms, big state/little state.

I love the profession. I make money from the profession. But my concerns are whether or not this profession will continue to exist if we go forward with the XYZ designation.

As an example, before we heard as to the Assurance Services and what it is that we can be doing going forward.

Well, if you look at those services, they don't require the services of a CPA. These can be done by an XYZ. It doesn't require attest services. It doesn't require a license.

And my concern is similar to the fact that some of you -- those of you in administration that might have received your bills for publications in the last month will see

2 that where you had gotten publications from the  
3 AICPA last year, that now are handled by  
4 cpa2biz.com, once the portal is in place.

5 And while I certainly understand  
6 that and assume that the Institute, us, will be  
7 making the money that we made previously at  
8 least, my concerns would be that if the  
9 designation goes forward, well, why won't these  
10 services be pushed over to the XYZ and that the  
11 only services that will be left to be advertised  
12 for the CPA will be those services that we're  
13 licensed to handle, which would be basically the  
14 attest function.

15 It concerns me greatly.

16 Another one, another concern  
17 that I have, is one of, when speaking to some of  
18 our other -- my other colleagues here from other  
19 places and discussing what they like about this -  
20 - what's good about the discussions that we've  
21 had and about the meeting last night and some of  
22 the meetings that we've had with people over the  
23 last few days, is that I think that where we  
24 disagree, we disagree on a friendly basis. We  
25 have strong views, but people walk away from one

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2 another shaking hands and smiling.

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4 And while we feel strongly about  
5 how our opinions are and where we want this  
6 profession to go, I believe we all have the best  
7 interest of the profession at heart.

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9 There isn't anybody up there and  
10 I don't believe there's anyone out there that is  
11 doing this for selfish reasons. And I think  
12 that's very admirable. And I think that when this  
13 is over, however this goes, and whether it ends  
14 today or whether it ends in October, the  
15 important thing is that I think we'll all be able  
16 to work together and that we will at least  
17 understand how everybody feels about the issues  
18 and that we did this for the profession.

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20 Just a couple of other things  
21 and I'll sit down.

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23 In speaking with these people, I  
24 found that they felt that the global portion of  
25 the name, of the portability of the certificate  
is what attracts them.

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27 And what's frustrating to me is  
28 I go to Europe almost on a monthly basis, from  
29 London down to Johannesburg. People know what I



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do. They know I'm a CPA. They don't question if I have an MBA from an Ivy League school. If I do, they couldn't care less about that. They don't say what's the difference between a Chartered Accountant and a CPA. They know what it is.

I do work there. I make money there and I'm respected there, as is I'm sure many of my colleagues.

And it just seems to me that it's just a misunderstanding of what it is that this new designation will be.

Right now I feel that the XYZ designation is a concept. When asked at the debate yesterday what kind of curriculum do you expect there to be, there really wasn't much of an answer. And it troubles me greatly.

And I thank you for the time.

CHAIRPERSON EDDY: Thank you,  
Neil.

Next.

COUNCIL MEMBER DUANE SUITS:  
Duane Suits, Council Member from Illinois.

I support the resolution offered by the Council Members from New York as a member

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of the AICPA Council.

I'm also an Incoming Chair of the Illinois CPA Society. And I think as most people have heard by now the Illinois CPA Society Board voted unanimously to oppose the XYZ designation.

But I speak as a member of AICPA Council and not in my role or future role as a Chair of the Illinois CPA Society.

As an AICPA Council Member, I feel I have a fiduciary responsibility to act in the best interests of the AICPA and its members.

I commend the Board and the staff of the Institute for bringing forward ideas and initiatives that need to be considered by the members of this profession, debated and resolved.

It is why we support and why we need a national CPA organization.

However, I support this resolution because of a deep concern that continued AICPA involvement in the XYZ designation will significantly increase the disconnect that our members already feel with their State Societies and with the AICPA.

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2 In Illinois we have found  
3 through survey and through face-to-face  
4 discussions with our members that the more  
5 members learn about the XYZ designation, the more  
6 they dislike it and feel the Institute should not  
7 be involved with it.

8 These members do not want  
9 financial and other resources of the AICPA  
10 committed to another six months of selling XYZ.  
11 They want those resources directed towards  
12 enhancement of the CPA image, toward attracting  
13 young people to this great profession, and  
14 towards realizing the CPA Vision that our members  
15 so vigorously supported several years ago.

16 In conclusion, I feel I must  
17 support this resolution submitted by the New York  
18 Council Members in order to act in the best  
19 interest of the AICPA and its members.

20 Thank you.

21 CHAIRPERSON EDDY: Next at that  
22 microphone, please.

23 COUNCIL MEMBER HENRY KROSTICH:  
24 Yes. Thank you, Kathy.

25 My name is Henry Krostich. I

1  
2 manage a small three-person CPA firm on Long  
3 Island, New York.

4           Since I am a new member of the  
5 Council, this is the first time I'm addressing  
6 this body. Please let me tell you a little bit  
7 about myself.

8           My two partners are my two  
9 brothers. In addition, my brother-in-law is a  
10 CPA. So is one of my sisters-in-law.

11           Our firm was founded in 1946 by  
12 my father and his father. My grandfather earned  
13 his certificate in 1943, New York No. 10356. It's  
14 hanging on my office wall right next to mine.

15           As a teen, I remember my  
16 father's friends tended to be his clients and  
17 other CPAs, men such as Henry Stark, a vigorous  
18 supporter of this profession and the New York  
19 State Society, and Bob Israeloff. Those were his  
20 friends and guests in our home.

21           This profession and its success  
22 into future generations is extremely important to  
23 me.

24           Yesterday Bob Elliott told us  
25 that the additional competition was a good thing,

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but that there would be a bigger pie.

Yet, if you subscribe to the fifty-one percent CPA-owned financial services firm, as described in the UAA, I cannot imagine nor have yet heard of one such new service that would be created.

In addition, I wonder what would happen to the personal financial planning practice of Ginny Stanley, another of yesterday's panelists when every insurance salesperson, stock broker and pension consultant in Albuquerque started calling on her clients waving their XYZ certificates before them.

Ginny also mentioned that networking would be a major advantage of her being an XYZ.

Ginny, you are sitting in a room with most probably some of the best and most knowledgeable CPAs in this nation. I have never had a CPA whom I've asked for assistance refuse me. This is the best networking system I know of.

Yesterday we also heard about and most of us participated in our nation's representative democratic system. This Council

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works under the same system. We as Council Members have the duty to listen to our constituents and guide and evolve this profession as it moves into the new century.

The only reason this proposal needs to be submitted to our membership is because it requires a by-law change. Were it not for that requirement, we would be making the go/no go decision right here today.

Do not use that by-law requirement to abdicate your responsibility to decide where this profession will go. Calls to let the membership decide in my opinion is nothing but a cop-out.

If you believe the XYZ credential, as currently presented, is the best we can do for the future of the accounting profession, then by all means you should vote it.

But if you believe, like I do, that we can do better, lots better, than, like me, vote against it.

Thank you.

CHAIRPERSON EDDY: Let me just say to Victor, the answer to the question

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relative to the J. H. Cohn report is that it was an agreed-upon procedures report and it was based on the IPG research only. It did not include the other survey work.

Ron.

COUNCIL MEMBER RON THOMPCKINS:

Good morning.

CHAIRPERSON EDDY: Good

morning.

COUNCIL MEMBER RON THOMPCKINS: I

have so much to say I don't know if I have a voice to say it.

But -- my name is Ron Thompkins. I'm the current President of the Florida Society of CPAs.

You know, by way of background, since I came into Council I guess for the first time in October of 1998, at that same meeting, that was my first opportunity to hear about the Global Designation and also to hear about The CPA Portal and a lot of other forces, both inside and outside of our profession, that were driving change.

At that same time I was also a

1  
2 Chair of the Governance and Structure  
3 Restructuring Task Force of my State Society.

4 I took the information that I  
5 had gleaned from that particular Council meeting  
6 and used that in every opportunity I could to go  
7 around to all twenty-nine of our chapters. At  
8 that time and still now we have a 108-member  
9 board. And each and every opportunity I could I  
10 got before that board and, once again, talked  
11 about and espoused the virtues of the XYZ as well  
12 as The Portal and also the outside and internal  
13 forces that were driving change in our  
14 profession.

15 By way of just some other  
16 information, one of my favorite things I love to  
17 do is, I'm a history buff. And one of the things  
18 I did during my presidency is go back and  
19 research some of the changes that were driving  
20 our profession and driving this country for the  
21 last hundred years.

22 One of the things that I thought  
23 was very interesting when we look at our history  
24 and when you look at the days of the Industrial  
25 Revolution when over half this country was



2 working in the agriculture industry and they were  
3 -- and over half the people that were in our  
4 nation were feeding the entire country and this  
5 world.

6 And, once again, when we --  
7 change was about to become -- in that time the  
8 advent of the dissimilar line of automobiles and  
9 some of the other changes drastically coming into  
10 being at that time. It had probably the same  
11 effect then as this particular initiative is  
12 having here today.

13 One of the things that we have  
14 to keep in mind when we look at our profession,  
15 the founding fathers of this profession, if they  
16 had not responded to the elements both inside and  
17 outside of this organization and did not do the  
18 things that they needed to do at the time to  
19 drive that change forward, we would not be where  
20 we are today.

21 Also by way of some information  
22 that I think is of interest, we've had a whole  
23 lot of discussions about surveys. We've had a  
24 whole lot of other empirical evidence and  
25 information we've been given both -- that are

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still current in this profession.

My firm and myself personally for the last ten years we've been significantly involved in the education, the public education system in South Florida. My firm for the last ten years we have a program that we put into place with the Dade County School System by which we have a junior or senior that comes to our firm for their fifth and sixth period class for the day. And they actually get a grade. They come to us for the entire school term.

Seven years ago I guess I got my first opportunity to learn that something unique and different was happening with our profession. For seven years we were very instrumental in placing that student in a college and university and that student going on to become a CPA.

Seven years ago the young man that came to our profession was probably the best and the brightest we've ever had. He decided not only not to go into accounting, he went into engineering.

And once again, lately, we have been unable to get a student at all.

1  
2                   And, once again, out of all the  
3 information and all the surveys that we've heard,  
4 one of the compelling surveys to me was probably  
5 the Taylor study, the most recent update he gave  
6 us.

7                   And as we look at what's going  
8 to be here for our profession for the future, and  
9 one of the things, just a quote from Mario  
10 Angelo, who indicated I guess in his particular  
11 city - and this is very important - the  
12 difference between a politician and a statesman,  
13 the politician thinks about the next election, a  
14 statesman thinks about the next generation.

15                   When we, as a profession, can't  
16 make the decisions that we need to make that will  
17 not only drive this profession forward -- and Dr.  
18 Taylor in his updated remarks indicated that out  
19 of all of the surveys and all the information  
20 that he's gleaning from the students, the one  
21 that created the most critical mass is that one  
22 that drove the Vision-aligned CPA along with the  
23 XYZ.

24                   And one of the things that we,  
25 as a profession, need to take hold of when we

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2 have all the evidence and information we receive,  
3 if we don't think the XYZ is where we need to do,  
4 we need to talk about what is. And if this is not  
5 the time to be talking about going forward with  
6 the XYZ, we need to talk about when is the time.

7

8 But what should not be  
9 considered an option for us who are CPAs and who  
10 should be very much the leadership of this  
11 profession is saying not doing anything is an  
12 option.

12

13 And, once again, I want to  
14 remind my fellow CPAs at this point in time we  
15 exercise our leadership.

15

16 Once again, having a lot of our,  
17 I understand, our foreign partners in to witness  
18 this process, being also a representative from  
19 Florida, I also want to point out to them that  
20 what they may have experienced back in Florida in  
21 January was probably an aberration and that's not  
22 the kind of thing that normally happens in the  
23 nation.

23

24 But also knowing the vote has  
25 not taken place yet, I can't quite make that  
26 determination.

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2 But, once again, I want to  
3 encourage my fellow Board Members to, once again,  
4 let's think about the future. And if you -- we  
5 can take all the surveys we want to take. But one  
6 of the best ones we can take is to walk up and  
7 down the halls of our firms and our business  
8 organizations and talk to our people, go out and  
9 talk to our clients.

10 And I think the thing -- it  
11 would reassure you we need to take a new  
12 direction. That, once again, it's not an option  
13 just for us to just sit on our feet and not do  
14 anything.

15 Thank you.

16 CHAIRPERSON EDDY: This  
17 microphone. Yes, please.

18 COUNCIL MEMBER TIM O'BRIEN: Tim  
19 O'Brien, Council Member for Colorado.

20 I would like to call for the  
21 question.

22 (Applause.)

23 CHAIRPERSON EDDY: Is there an  
24 objection?

25 (No response.)

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CHAIRPERSON EDDY: Hearing none, then, we are, I remind you, voting on the New York resolution.

All those in favor signify by "aye"?

A COUNCIL MEMBER: Madame Chairman, I call for a Division of the floor.

CHAIRPERSON EDDY: All right.

A COUNCIL MEMBER: A Division of the floor.

CHAIRPERSON EDDY: A standing vote?

Rich?

We are going to do a standing vote. That's what's been called for.

Correct?

By a standing vote. Is that -- with everybody is that all right?

(No response.)

CHAIRPERSON EDDY: Okay. Right. Okay.

First of all, let me remind you that only those who have white badges on can vote, number one.

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We are going to have a standing vote and we will count off. And we will organize that in just a second.

And let me secondly remind you that we are voting on the New York resolution which indicates that if it passes, we cease working on the XYZ.

Okay.

MR. RICHARD MILLER: We will go table by table. As we stand up, count off.

CHAIRPERSON EDDY: Okay.

All those in favor, please stand up.

MR. RICHARD MILLER: Wait a minute. Don't stand yet.

CHAIRPERSON EDDY: Okay. Oh! You want to do it by table. All right.

COUNCIL MEMBERS: No.

CHAIRPERSON EDDY: All those in favor stand up I think. Let's do it that way and then let them count, please.

A COUNCIL MEMBER: Sit down when they count.

CHAIRPERSON EDDY: Sit down

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when they're counted.

And surely we can count, right?

(A standing vote was conducted  
of those in favor of the resolution.)

MR. RICHARD MILLER: Forty-one  
for, Madame Chair.

CHAIRPERSON EDDY: Have all the  
"for's" voted?

MR. RICHARD MILLER: Forty-one  
in favor.

CHAIRPERSON EDDY: Forty-one in  
favor of the New York motion.

Now could I ask those who are  
opposed to the New York motion to please stand.

(Applause.)

(A standing vote was conducted  
of those in opposition to the resolution.)

MR. RICHARD MILLER: One hundred  
and fifty-two opposed.

CHAIRPERSON EDDY: The vote was  
forty-one in favor and one fifty-two opposed.

The New York motion is defeated.

(Applause.)

CHAIRPERSON EDDY: The Chair



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now recognizes Don Gurseley from California.

COUNCIL MEMBER DON GURSEY: Good morning.

My name is Don Gurseley from California.

And in light of the outcome of the motion from our good friends and colleagues from New York, I want you to know that the delegation feels, the California delegation that is, that now is not the time to call in Dr. Kervorkian.

(Laughter.)

COUNCIL MEMBER DON GURSEY: We further want to make it crystal clear that at this point that we are XYZ neutral.

However, we strongly do support the idea of conducting a grassroots communication effort to discuss with and provide a forum for member input on the XYZ credential prior to membership vote.

So with this in mind I would like to introduce our resolution.

CHAIRPERSON EDDY: Thank you, Don.

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2 That is the resolution that was  
3 at your places on Monday that is labeled --  
4 supported by California and Texas.

5 COUNCIL MEMBER DON GURSEY: Yes.

6 And if you want me to read it, I  
7 may miss my plane. But I could.

8 CHAIRPERSON EDDY: No.

9 Is there a second?

10 A COUNCIL MEMBER: Second.

11 ("PROPOSED RESOLUTION FOR THE  
12 NEW GLOBAL CREDENTIAL OFFERED BY COUNCIL MEMBERS  
13 FROM CALIFORNIA AND TEXAS

14 "WHEREAS, the AICPA and several  
15 international partners have been working to deve-  
16 lop a new global interdisciplinary credential to  
17 be led by accounting professionals globally; and

18 "WHEREAS, the AICPA Council members at  
19 Regional Council heard presentations on detailed  
20 market research in support of the development of  
21 the credential; and

22 "WHEREAS, the AICPA will only implement the  
23 credential if Council and membership vote  
24 favorably for the proposal; and

25 "WHEREAS, the AICPA prefers to conduct a

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membership referendum before the start of 2002 tax season, but later in calendar year 2001, so that members can have adequate time to consider the proposal and it cannot accomplish this if Council postpones a vote on the authorization for a membership referendum until the October 2001 meeting of Council; and

"WHEREAS, the AICPA prefers not to mail the membership referendum to members until after a final name is selected and approved by Council, members are further informed and consulted concerning the credential and given an opportunity to provide their input on the proposal, and Council has had more time to review a business plan; and

"WHEREAS, Council wants the AICPA and/or State Societies to conduct 'grassroots' member information programs on the credential for purposes of both obtaining member comment on the proposal, and creating a consistently informed constituency; and

"WHEREAS, members should be consulted on the eligibility of non-CPAs to obtain the credential, a statistically valid survey will be

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conducted under the supervision of the leadership of the AICPA and three State Societies to ascertain the attitudes of the members on the issue; and

"WHEREAS, Council has previously resolved to continue the development of a new global credential and will consider the proposal again at its Fall meeting;

"NOW, THEREFORE, BE IT RESOLVED: That the AICPA Council authorizes continued development, in cooperation with other international professional organizations, of a new global professional credential as outlined in the materials supplied to Council; and

"BE IT FURTHER RESOLVED: That Council authorizes the submission to the members for approval by mail ballot of a resolution to amend the Bylaws of the AICPA so as to specifically recognize the AICPA's authority to enable the granting of an interdisciplinary global credential in an affiliated entity; and

"BE IT FURTHER RESOLVED: That the Board and management are instructed not to mail the membership referendum to the members until after

1  
2 the Fall meeting of Council in October 2001; and

3 "BE IT FURTHER RESOLVED: That the Board  
4 and management should continue with a program to  
5 inform AICPA membership on the potential for a  
6 new global credential, how it will benefit CPAs,  
7 its implication for the CPA profession and to  
8 obtain member and state society comment in  
9 anticipation of a membership referendum  
10 authorized by Council on the proposal.

11 "BE IT FURTHER RESOLVED: That at its Fall  
12 2001 meeting, Council will discuss the feedback  
13 received from the membership during the  
14 grassroots campaign over the upcoming months,  
15 including any modifications to the proposal  
16 agreed to by the international partners in  
17 response to that feedback; and

18 "BE IT FURTHER RESOLVED: That Council  
19 reserves the right to rescind its membership  
20 referendum authorization at the October meeting  
21 of Council.")

22 CHAIRPERSON EDDY: Bob.

23 COUNCIL MEMBER BOB ANDERSON: My  
24 name is Bob Anderson. In addition to being a  
25 Member of Council, I also serve as current

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Chairman of the Texas Society of CPAs.

The Members of Council from Texas support the alternative resolution on a Global Designation or the Global Business Credential for the consideration of this Council.

We support this alternative after receiving input from the Executive Board of the Texas Society of CPAs and taking into account the results of a survey we conducted with our Texas Society leadership group of over two hundred and fifty CPAs.

We also discussed the research material provided by the AICPA and the proposed AICPA resolution.

In addition, we also discussed the alternative resolution proposed by the New York Society in opposition to the Global Business Credential.

I will highlight what we consider to be the significant items in the resolution before you.

Number one, it is important that a membership vote be allowed.

Number two, a membership vote on

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2 this matter should be tentatively scheduled for  
3 sometime later this year after the opportunity to  
4 conduct grassroots information forums with the  
5 membership to inform them about this initiative  
6 and to obtain their feedback.

7 We do not believe delaying a  
8 vote until next year will serve much good, and  
9 especially we do not support a member vote  
10 occurring immediately after the end of next tax  
11 season. This diminishes the usefulness of the  
12 education information sessions we would hold  
13 during the upcoming months.

14 We think the issue is already  
15 being debated in the accounting press and in the  
16 accounting community. Therefore, if a member vote  
17 is to be held, it makes sense to do it later this  
18 year so we can bring this issue to resolution.

19 Number three, we think it is  
20 critical that a true grassroots informational  
21 campaign on this matter occur. On an issue of  
22 this magnitude it is vital that we listen to our  
23 membership as well as inform them about the  
24 proposal.

25 With that in mind, we think it

1  
2 should be made clear that during this period of  
3 grassroots informational activity we are open to  
4 feedback and input from our membership on this  
5 issue.

6 Also, based on the feedback we  
7 receive from members, we are willing, if  
8 necessary, to finetune the proposal for a Global  
9 Business Designation to accommodate the major  
10 concerns and wishes of our membership.

11 Number four, we think the  
12 resolution should make it clear that the Council  
13 is authorizing the continued development of a  
14 Global Business Designation. We think we are  
15 better served to make it clear that the Council  
16 is still considering this matter and that our  
17 final decision will not occur until after we  
18 receive the input from our members during the  
19 grassroots informational campaign.

20 Number five, we think that the  
21 resolution should state that the Council would  
22 have the authority for approving the name that is  
23 selected for the proposed credential.  
24 Unfortunately, the earlier proposed name of  
25 cognitor elicited such a negative response it



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2 took away from the concept of global designation.  
3 Therefore, Council should approve any new name  
4 for the credential that it would recommend to our  
5 membership.

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7 Number six, a survey of the  
8 membership should be conducted to determine  
9 whether they support the development of a  
10 credential that will be available to non-CPAs as  
11 well as CPAs. It appears that this specific issue  
12 is one that concerns a number of our members and  
13 could be divisive in the implementation of any  
14 credential program.

14

15 Number seven, we think the  
16 resolution should explicitly state that at the  
17 Fall 2001 Council meeting Council will review,  
18 discuss and debate the feedback we receive from  
19 the membership during our grassroots campaign  
20 over the upcoming months, and that, if  
21 appropriate, Council will make modifications to  
22 the proposal in response to the input we receive  
23 from members.

23

24 Finally, we recognize the  
25 significant effort that has been put into this  
project to date by the leadership of the AICPA.

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2           The initiative has caused us all  
3 to focus on the future of the accounting  
4 profession and how best to help our members reach  
5 the CPA Vision that we have developed.

6           It is now time for serious  
7 debate and dialogue on this matter with our  
8 members at large over the upcoming months.

9           It is our sincere hope that the  
10 feedback we will receive from members through a  
11 grassroots informational campaign will help us to  
12 guide the Council in determining the appropriate  
13 and final course of action on this matter and we  
14 look forward to reaching that decision at our  
15 meeting in the Fall.

16           We from Texas urge all members  
17 of Council to support this revised resolution as  
18 a means of reaching that goal.

19           Thank you.

20           CHAIRPERSON EDDY:    Thank you,  
21 Bob.

22           And as a point of information  
23 for the members of Council, the Board of  
24 Directors has met during this Council meeting and  
25 we too support the California and Texas

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resolution.

COUNCIL MEMBER JEFF HOOPS: Good morning. I'm Jeff Hoops from New York.

I heard Kathy from Wisconsin observe that most of the Council Members here are over fifty and we need to think about those folks that are represented here between the ages of twenty-two and thirty-five.

Well, I stand here as a member of that lost generation between thirty-six and forty-nine.

(Laughter.)

COUNCIL MEMBER JEFF HOOPS: For us, the future is now.

Those of us in this generation encourage change, want change, but we want to have it pretty quick before we get to that over-60 crowd.

(Laughter.)

COUNCIL MEMBER JEFF HOOPS: For that reason, I think we should move this to a vote of the membership as quickly as possible and dispense with the grassroots educational campaign.

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I say that for basically three reasons.

First of all, I've heard a lot of debate here about the various surveys taken by both the AICPA Board of Directors and also the various State Societies and the debate about why the results were different. And many people say that it is because some of the folks in the State Society aren't properly informed.

Well, I actually think CPAs are pretty smart people and I think that they are already pretty well informed on this issue. And I think it's time to take this to a member vote.

Second, as a member of Council for six months now, I've heard an undercurrent both in New York and from other places that the AICPA Council and the Board of Directors are really disconnected from its membership. What better way to show that we are connected to our membership than to take this to a vote of the membership.

And, third, I would encourage us to save the \$2 million that it is going to cost to conduct this educational campaign and put that

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to better use, either moving forward with the XYZ  
or expanding the CPA brand.

Thank you.

(Applause.)

CHAIRPERSON EDDY: There is a  
motion on the floor. Is there further discussion  
on the motion on the floor?

COUNCIL MEMBER BOB SHUMAN: Yes.

Thank you, Kathy.

My name is Bob Shuman. I'm from  
Maine. And I am one of the 22 to 35 people,  
albeit on the fringe.

(Laughter.)

CHAIRPERSON EDDY: We're glad  
to have you.

(Laughter.)

COUNCIL MEMBER BOB SHUMAN:  
When I first heard of the Vision of the CPA, the  
CPA Vision, I was excited about some of the  
specializations as well there being put forth.

I'm also one of the three  
hundred CITPs.

And because of the limited  
marketing in Maine as well as nationally, at

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2 least as far as I can tell for the CITP, I found  
3 it necessary to get a MCSE and a MCT which has a  
4 much broader base for IT recognition.

5 I am in favor of the vote going  
6 out for the XYZ. And I feel a grassroots  
7 education is a good way to do it.

8 I am also in favor of that vote  
9 coming forward as quickly as possible so that at  
10 next Council meeting we have all the information  
11 from our members.

12 But if this vote finds that the  
13 XYZ is not the way that our members want to go, I  
14 do support more knowledge to the consumers of  
15 these specializations so that people can  
16 understand that we are trying to broaden in our  
17 own way what a CPA designation represents and who  
18 we are. And these do have names. These are not  
19 XYZs. These actually have names that we are  
20 promoting. So let's make the consumers aware of  
21 that.

22 Thank you.

23 CHAIRPERSON EDDY: Thank you  
24 very much.

25 A COUNCIL MEMBER: Call the

1

2 question.

3

CHAIRPERSON EDDY: Is there an

4

objection?

5

(No response.)

6

CHAIRPERSON EDDY: Okay.

7

The question before us is the

8

California/Texas jointly supported motion.

9

All those in favor please

10

signify by "aye."

11

(Chorus of "ayes.")

12

CHAIRPERSON EDDY: Opposed

13

"nay".

14

(Scattered "nays.")

15

CHAIRPERSON EDDY: The "ayes"

16

have it.

17

(Applause.)

18

CHAIRPERSON EDDY: The motion

19

has passed.

20

Thank you. You've made an

21

important decision today.

22

In the coming months we will

23

move ahead with the member information and

24

response program working closely with the State

25

Societies.

1  
2                   As we all know, the XYZ  
3                   credential is a complex concept. There are many  
4                   layers and many sources of information and we are  
5                   determined to help our members sort through those  
6                   layers.

7                   And we will listen carefully to  
8                   our members' voices on these issues.

9                   As we have in recent months, we  
10                  will keep you up-to-date on the XYZ credential,  
11                  on our communication efforts, on what the members  
12                  are saying and on how we are following up on the  
13                  very important step that you have taken today.

14                  As the California/Texas  
15                  resolution makes clear, this issue will be  
16                  addressed again in October with Council reserving  
17                  the right to rescind the membership ballot  
18                  authorization.

19                  Ultimately, we will follow the  
20                  voice of our members as our obligation as  
21                  stewards of this profession.

22                  Let's take just a ten-minute  
23                  break, please.

24                  (Which were all the proceedings  
25                  at the Fourth Session of Council which concluded



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at 11:15 o'clock a.m.)

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F I F T H        S E S S I O N

Wednesday, May 2, 2001

11:35 o'clock a.m.

CHAIRPERSON EDDY: We will now turn to Agenda Item No. 14, and that is the Report of the Finance Committee.

As everybody is aware, the Finance Committee monitors the Institute's fiscal affairs. It also receives the development of the annual budget which then goes to the Board of Directors and is finally submitted to Council.

We are indeed fortunate to have Bill Strain serve as Chair of the Finance Committee. He is going to report to you, along with Clarence Davis, the Institute's Chief Operating Officer.

First, they will discuss the interim financial statements for fiscal year 2001, and then they will present the proposed 2001-2002 budget that was provided to you in your packets.

Bill and Clarence, come to the podium, please.

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(Applause.)

MR. BILL STRAIN: Good morning.

My name is Bill Strain. I'm a partner with a local CPA firm in Lincoln, Nebraska.

I also have the pleasure to serve as the Chair of the Finance Committee of the Institute's Board of Directors during this past challenging and exciting year.

I'm pleased to present this finance report to you along with Clarence Davis, our Chief Operating Officer of the AICPA.

First, we will briefly discuss the impact of launching the cpa2biz, then the actual results for the current fiscal year, and the forecast for the remainder of the year.

Then we will present the proposed budget for fiscal 2002 for your approval.

Background material on these subjects was provided to you in your Council materials.

The format of our presentation will be comments from me regarding the current

1  
2 year's financial results and next year's budget,  
3 followed by more specific highlights from  
4 Clarence.

5 After our presentations, we will  
6 be pleased to respond to your questions.

7 As you heard in the reports on  
8 Sunday, cpa2biz was launched on February 1, 2001.  
9 With that launch the AICPA became a content  
10 developer while cpa2biz focused on the  
11 distribution and marketing of products developed  
12 by the AICPA and products developed by others.

13 I wish to assure you that the  
14 Institute's senior management and its Board of  
15 Directors took our fiduciary responsibilities to  
16 the AICPA and its members very seriously with  
17 negotiating the agreements between the AICPA and  
18 cpa2biz.

19 The final agreements between the  
20 Institute and cpa2biz kept the AICPA whole and  
21 give the Institute upside potential from a  
22 royalty on all Portal activities.

23 As shown on this slide, cpa2biz  
24 will recognize approximately \$65 million of  
25 revenue related to the marketing and distribution

1  
2 of the Institute's professional service products.

3 It is important to understand  
4 that the AICPA still controls the development of  
5 those products and the adherence to strict  
6 quality standards for those products.

7 The \$65 million encompasses a  
8 number of revenue-producing areas including  
9 professional development, conferences,  
10 publications, software and advertising, as well  
11 as affinity program revenue.

12 It does not encompass revenue  
13 related to membership dues, CPA Exam revenue or  
14 revenue from accreditations.

15 Additionally, \$18 million in  
16 direct expenses were also assumed by The Portal.

17 Cpa2biz has agreed to pay \$47  
18 million to the Institute through fixed monthly  
19 payments and cost of sales recoveries.

20 The excess revenue over expenses  
21 at March 31, 2001 was \$1.6 million.

22 I will now turn to Clarence to  
23 discuss these results along with the forecast for  
24 the remainder of the year.

25 MR. CLARENCE DAVIS: Thank you,

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Bill.

Good morning.

As previously mentioned, the excess revenue over expenses as of March 31, 2001 was \$1.6 million. And we are forecasting for the year ended July 31, 2001 revenue over expenses of \$200,000.

The positive results in the first eight months were principally due to:

Higher than budgeted subscription revenue related to AICPA Infobytes. Over 60,000 subscribers, members, have purchased AICPA Infobytes versus a budget of 40,000. Subscribers to Infobytes include both members, who historically have purchased self-study products, and new subscribers.

Higher sales of self-study courses and publications than originally budgeted. The budget had anticipated a sales decline in these product lines as members moved to the electronic formats. However, we did not experience this decline.

And favorable variances in the expense due to timing differences.

1  
2                   These were offset by a later  
3 launch of the Information Technology Alliance, a  
4 deferral of further subleasing of the AICPA's  
5 office space to others, and lower peer review  
6 revenue.

7                   The 2001 forecast for operating  
8 results is an excess of expense over revenues of  
9 approximately \$1.4 million.

10                   After taking into consideration  
11 gains on marketable securities, we are  
12 forecasting a \$200,000 surplus of revenue over  
13 expenses.

14                   I will focus my comments on the  
15 forecast for the full year.

16                   Operating results, net of cost  
17 of sales, is about even due primarily to greater  
18 sales of Infobytes and higher sales of self-study  
19 courses and publications.

20                   These were offset by lower dues  
21 and other income.

22                   With respect to lower dues,  
23 which is -- this decrease is attributable to a  
24 lower average membership dues rate caused by  
25 movement between dues classifications and a

1  
2 slightly higher number of members dropped for  
3 non-payment of dues. These members have  
4 historically paid their dues in April through  
5 June.

6 Expenses are forecasted to be  
7 higher due primarily to higher salaries,  
8 telephone costs and organizational support,  
9 offset in part by lower depreciation and  
10 amortization, meetings and travel and postage.

11 The forecast indicates that  
12 realized and unrealized gains will meet budget by  
13 year end with Alan Greenspan's assistance.

14 (Laughter.)

15 MR. CLARENCE DAVIS: This  
16 concludes our presentation of the current year's  
17 results and we will proceed with the budget  
18 presentation.

19 We will answer any questions you  
20 have at the end of that presentation.

21 Bill.

22 MR. BILL STRAIN: Now for the  
23 budget.

24 The process by which the budget  
25 is prepared and reviewed at the AICPA is an



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extensive one.

Over the fall teams prepared detailed operating plans consistent with the CPA Vision and the anticipated launching of cpa2biz.

In late fall and early winter the teams prepared budgets consistent with those plans.

Face-to-face meetings were held with each team to review their operating plans and budgets.

The budget was then reviewed by the Institute's executive staff and senior vice presidents.

The Finance Committee held its first review of the budget on March 20th. The Finance Committee approved the budget on April 18th, and on April 19th and 20th the Board of Directors approved this budget for presentation to you today.

The proposed budget for fiscal 2002 is somewhat unusual in that it proposes an excess of expenses over revenue of \$3 million.

Over the last decade the AICPA has built a substantial financial foundation to

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ensure that it can invest in initiatives important to our profession.

I want to emphasize here that some initiatives have immediate benefit to the profession, they address issues of here and now, others represent an investment in the future of our profession.

The Board and Finance Committee have reviewed the student research reported at Fall Council in October and at Regional Council earlier this year.

We have also listened closely to the concerns expressed by members regarding the availability of qualified personnel.

As a result, the Finance Committee and the Board of Directors firmly believe that now is the time to use some of the Institute's capital to invest in a student recruitment campaign for the CPA profession.

And approval of this budget is an approval to launch a new five-year student campaign designed to attract young and talented individuals to the CPA profession.

The first year of the campaign

1  
2 will cost around \$5 million and be funded from  
3 our operating budget and fund balance.

4 The Board and management are  
5 studying other possible funding sources for the  
6 following four years which may include government  
7 grants, a dues increase or other possible funding  
8 sources.

9 Because student interest in the  
10 CPA profession is on the wane, we do not believe  
11 we should or can wait until these other funding  
12 sources are identified. We believe that we now -  
13 - we need to get started as soon as possible to  
14 show young people why this is such a great  
15 profession.

16 We will, of course, review the  
17 efforts each year to determine the funding levels  
18 necessary in the following year.

19 This budget also reflects a full  
20 year of operations under the agreements between  
21 the AICPA and cpa2biz, as well as the continued  
22 commitment by the Institute to support critical  
23 initiatives consistent with the Vision created by  
24 the grassroots of this profession.

25 Now to Clarence to discuss

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highlights of the fiscal 2002 budget.

MR. CLARENCE DAVIS: This budget reflects the change in business model of the AICPA and the new revenue streams under the agreement between the AICPA and cpa2biz.

The revenue streams --

MR. BILL STRAIN: The next slide, please.

MR. CLARENCE DAVIS: -- are consistent with the 2001 budget due to the contractual agreements between AICPA and cpa2biz.

Some of the key components of the 2002 budget are:

Expanded advertising campaigns to focus on student recruitment and minority recruitment while maintaining the general CPA Image Enhancement Campaign with matching funds for State Societies;

No dues increase;

Continued study;

Grassroots communication;

And member evaluation of the XYZ initiative;

Continued development of the

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computerized CPA Exam;

Outsourcing of the library to a university;

Consolidation of various technical teams into a new leading and innovative, self-directed team to speed up the delivery of new services and products to members and the market in general.

The slide represents a condensed presentation of your Council materials.

After funding the items Bill just described to you, we are presenting a deficit budget of \$3 million while maintaining a substantial fund balance.

The net operating expenses over revenue is budgeted at a \$4 million deficit.

The net gain on marketable securities is very conservatively budgeted at \$1 million, which is \$600,000 less than the current year's budget as we reduce reliance on this revenue for operating purposes.

I would like to insert the fact that Mr. Greenspan would help us this year, but he has not promised us for the future, and that's

1  
2 why we are moving to the \$1 million as opposed to  
3 the \$1.6 million.

4 Now, let us review the revenue  
5 sources.

6 Total operating revenues is  
7 \$116.4 million, including the \$1 million of gains  
8 on marketable securities.

9 Total budgeted revenue is  
10 approximately \$117.4 million.

11 Membership dues and fees is  
12 budgeted fairly consistently with the 2001  
13 budget.

14 Other revenue is budgeted to  
15 decrease \$1.8 million due to lower SECPS peer  
16 review program review, and sublease income which  
17 is offset in part by higher WebTrust revenue.

18 Also included in other revenue  
19 is interest and dividend income which is budgeted  
20 at slightly over \$3.5 million. This reflects  
21 lower interest rates and lower short-term  
22 investable assets.

23 Now to expenses.

24 Overall expenses are budgeted to  
25 increase 2.2 percent over the current year's

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adjusted budget.

Salary and benefits reflect a 4.8 percent increase, including both merit and promotional increases.

Occupancy, depreciation and amortization expenses are decreasing 7.8 percent due to slower purchasing of equipment and acceleration of amortization of certain software products in prior years.

Professional and commercial services and fees are decreasing 5.6 percent as reliance on outside providers is decreasing.

Advertising is budgeted to increase 69.2 percent as the new student recruitment program is launched while maintaining the CPA Image Enhancement program and the "Be a Star" program.

Promotions related to CPA services is budgeted to decrease 35.8 percent due to greater coordination of promotional efforts and alignment with cpa2biz promotional efforts.

Paper and printing are budgeted to remain flat even when faced with paper price increases due to greater usage of the Internet.

1  
2 Meetings and travel are budgeted  
3 to increase 2.5 percent due to higher hotel costs  
4 necessitating a \$25 increase in the per diem  
5 rates paid to volunteers who seek reimbursement  
6 for out-of-pocket expenses.

7 Postage and shipping will remain  
8 flat, again through increased usage of the  
9 Internet for correspondence with committee  
10 members.

11 The capital budget for fiscal  
12 2002 is \$8 million reflective of the AICPA's  
13 continued commitment to technology and to the  
14 profession. This represents only 6.8 percent of  
15 revenue.

16 I will now turn the presentation  
17 back to Bill for some closing remarks.

18 MR. BILL STRAIN: In 1997, the  
19 Institute's full balance increased from \$23  
20 million to \$36 million. This infusion was caused  
21 by significant cost reductions, by strong  
22 performance in the securities marketplace, and by  
23 the adoption of SFAS 128 requiring marketable  
24 securities to be reported at market value.

25 As previously indicated,



2 previous Boards of the Institute instituted a  
3 fund balance goal of twenty to twenty-five  
4 percent of annual revenue to preserve the fund  
5 balance for future investments called for by the  
6 profession and sanctioned by the Council.

7 As a result of this deficit  
8 budget, the Institute's fund balance is projected  
9 at the end of fiscal 2002 to be at \$29.2 million  
10 or 24.9 percent of total revenue, which is at the  
11 higher end of the Institute's goal of maintaining  
12 a fund balance equal to twenty to twenty-five  
13 percent of annual revenue.

14 As I stated in my opening  
15 remarks, this is an unusual budget. However, the  
16 Finance Committee and the Board of Directors  
17 believe strongly that the planned student  
18 recruiting program is both a necessary and an  
19 appropriate investment for the future of our  
20 profession that in now way endangers the strong  
21 financial foundation built by the AICPA over the  
22 last decade.

23 The recommended voluntary  
24 contributions to be included in the 2002 dues  
25 bill, which will be sent in June, are highlighted

1

481

2 for your review. A lower contribution level has  
3 been suggested for members paying the lower dues.

4 Now, are there any questions  
5 before I turn to the Chair to present the budget  
6 resolution.

7 COUNCIL MEMBER STU KESSLER: Stu  
8 Kessler.

9 Clarence, you mentioned that  
10 there is a cost in there for outsourcing of the  
11 library. I thought that that was the Foundation's  
12 cost.

13 MR. CLARENCE DAVIS: No. In  
14 fact, there is -- that is the Foundation's cost,  
15 Stu, but also the staff and other costs related  
16 to that.

17 COUNCIL MEMBER STU KESSLER: Is  
18 that significant?

19 MR. CLARENCE DAVIS: Is it  
20 significant?

21 COUNCIL MEMBER STU KESSLER:  
22 Because we would actually be reducing the staff  
23 cost; right?

24 MR. CLARENCE DAVIS: That's  
25 correct.

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COUNCIL MEMBER STU KESSLER:

Okay. I thought that you said we were increasing.

MR. CLARENCE DAVIS: No. I'm  
sorry. We are reducing it.

COUNCIL MEMBER JANICE CARR:

Janice Carr of California.

I spoke with Bea Sanders  
yesterday. In the proposed budget -- I believe  
this was an error, which is for clarification --  
the student dues show at \$60 and they should be  
at \$30.

MR. CLARENCE DAVIS: That is --  
what it is is that the line there is for students  
who are members of the AICPA and go back for  
their graduate degrees. It is \$60.

What was not included was that  
undergraduate is still \$30.

COUNCIL MEMBER JANICE CARR:

Thank you.

MR. BILL STRAIN: Other

questions?

(No response.)

MR. BILL STRAIN: Madam Chair,  
will you please present the budget resolution.

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CHAIRPERSON EDDY: I now ask Council to consider the following resolution: to approve the budget for fiscal year 2001-2002.

You should know that this budget includes a \$25 increase per diem to our volunteer members.

If we approve this budget, Council is also approving that per diem increase.

The resolution is:

"RESOLVED:

"That the proposed budget for the American Institute of Certified Public Accountants for fiscal year 2001-2002, as presented to Council in Item 14, be adopted."

May I have a motion to that effect?

A COUNCIL MEMBER: So move.

CHAIRPERSON EDDY: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRPERSON EDDY: Any further questions or comments?

(No response.)

CHAIRPERSON EDDY: All those in

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favor please signify by saying "aye."

(Chorus of "ayes.")

CHAIRPERSON EDDY: Those

opposed signify by saying "nay."

(No response.)

CHAIRPERSON EDDY: The motion

carries.

We now have an approved budget  
for the next year.

Thank you, both Clarence and  
Bill, for an incredibly difficult job.

Thank you very much.

(Applause.)

CHAIRPERSON EDDY: We now move  
to the traditional open forum.

You can ask questions regarding  
any of the presentations, any of the materials,  
or anything else you want to ask about.

Ted.

COUNCIL MEMBER TED KREINIK:

Thank you, Kathy.

I'm Ted Kreinik, senior Council  
Member from Connecticut.

The first thing is I wanted to

1

2 thank Kathy, Barry and the AICPA staff. I think  
3 we had a very good Council meeting, full of  
4 discussion, and also a respectful -- the respect  
5 for other people's opinions at this Council  
6 meeting. I really appreciated it.

7 I think that one of the things  
8 we did want to appreciate is -- to express our  
9 appreciation for is that in Connecticut our Board  
10 encouraged us to vote for the New York resolution  
11 and against the XYZ.

12 As I said, I think that what was  
13 very nice was the respect that Bob Elliott,  
14 Kathy, Barry and everybody else presented to all  
15 of our delegations on that.

16 So I do appreciate that.

17 (Applause.)

18 COUNCIL MEMBER TED KREINIK: I  
19 want to say that we do accept the  
20 California/Texas resolution and we look forward  
21 to the next six months of an exciting time where  
22 we will have both electronic and personal means  
23 of interchange.

24 Two suggestions I would make for  
25 the group that is looking at this.

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Number one is that one of those three State Societies be either D.C., Illinois or New York that did have a statewide view of their members.

And the second thing is that, if possible technologically, that we can make available the conversations that will go back and forth, the FAQs that will go back and forth on this whole discussion, number one, in an effort not to repeat conversations, but also so that people can gain from seeing the whole conversation between people.

So that if I happen to put in a conversation, somebody from Texas or somebody from Illinois, or whatever, can see the response that was given to me and they would not ask the same question. But also that they can build on that database.

And I think that is part and parcel of the whole knowledge that we are trying to put together.

But I do want to thank everybody, the Council and Kathy in particular.

CHAIRPERSON EDDY: Thank you,

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Ted, very much. Thanks for those comments.

(Applause.)

CHAIRPERSON EDDY: Any other questions or comments in the open forum?

(No response.)

CHAIRPERSON EDDY: If not, as we conclude this meeting, I would like to again offer my personal thanks to Council Members, Keyperson Coordinators and all the meeting participants for their cooperation, attention, and especially their insights during the past four days.

This meeting has been extremely productive, and I thank you all for your active participation.

Years from now I believe we will look back on this meeting as one of our most momentous in our careers.

I believe that we will look back with pride because we and our successors will be enjoying the enormous benefits of all of the programs we put into place this week.

Our next meeting is the Annual Fall Meeting of Council, which is scheduled for



1  
2 October 21st through the 23rd at Miami Beach's  
3 Loews Hotel, South Beach.

4 The meeting will be preceded by  
5 the CPA SEA Leadership Conference, and that will  
6 be held on the 19th through the 21st.

7 At this point Spring Council is  
8 adjourned.

9 (Applause.)

10 (Which were all the proceedings  
11 at the 2001 Spring Council Meeting, which  
12 concluded at 12:02 o'clock p.m.)

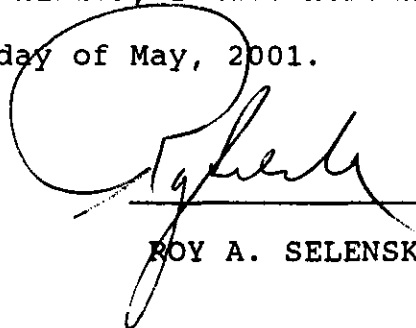
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STATE OF NEW YORK )  
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COUNTY OF NEW YORK )

I, ROY A. SELENSKE, a Certified Shorthand  
(Stenotype) Reporter and Notary Public within  
and for the State of New York, do hereby certify  
that the foregoing pages 1 through 489 taken at  
the time and place aforesaid, is a true and  
correct transcription of my shorthand notes.

IN WITNESS WHEREOF, I have hereunto set my  
name this 24th day of May, 2001.

  
\_\_\_\_\_  
ROY A. SELENSKE, C.S.R.

\* \* \*