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SPRING MEETING OF COUNCIL

of

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC

ACCOUNTANTS

May 4-7, 1997

J. W. Marriott Hotel

Washington, D.C.

ROY ALLEN & ASSOCIATES, INC.
521 Fifth Avenue, 17th Floor, New York, New York 10175
(212) 840-1167

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F I R S T S E S S I O N

Sunday, May 4, 1997

1:00 p.m.

CHAIRMAN MEDNICK: Good afternoon
and welcome to our nation's Capitol.

I am delighted to see you all here.
I understand from our secretary that we do have a
quorum for the meeting. So I officially announce that
the Spring Meeting of Council for 1997 is open and,
again, we welcome you all here to Washington, D.C.

This is a very exciting time, as you
know, to be in Washington. I think we have a very
interesting and productive program scheduled for you
over the next several days and I hope you will agree.

In particular, I want to welcome the
key person coordinators who are with us here today and
joining Council for the first time at a Spring Council
meeting.

This is the first joint meeting of
these two groups and I hope not the last.

Moreover, I'm told by Barry that
this could become a biennial event, that there would
be a joint meeting every other year at the beginning
of each new Congress.

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The format of this meeting is different than you had in the past because it is a joint meeting. And I want to just describe briefly how we will proceed over the next few days.

In order to enable members to fully participate in legislative sessions, after we have a business meeting this afternoon, we will tomorrow move to the Key Person Program.

And this will enable all of us to participate in a legislative issues update that is provided annually to the Key Person Coordinators, an educational session on how to get the most out of meetings with congressional delegations, and actual visits that I hope all of you will participate in on Tuesday afternoon to become personally acquainted with your representatives in Congress and discuss with them the issues of importance to our profession.

It is also a longer meeting that we typically have and I realize that. But, quite frankly, I think the extra day will be productive and that you will find this a very, very interesting meeting.

Members of Council have clearly sent a message to the AICPA leadership that you want to play a substantive role in the Institute's governance.

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And you should. And we have a responsibility to make sure that our meeting agendas have meat on the bones for those who are elected to lead this profession into the 21st century.

I hope you will agree when we wrap up at about 12:15 on Wednesday that we have accomplished those objectives.

Now, let me talk a little bit about the actual agenda.

In order to more logically integrate the Council business with the business of Washington, again, this afternoon, we will be devoted entirely to the business of Council and reports, including important updates from the Strategic Planning Committee - that will be given by Bob Elliott - and our important visioning project.

Tomorrow, as I previously indicated, will be devoted completely to the profession's interface with the Federal government and particularly the legislative branch and will include a political motivation orientation. Incidentally, all spouses are invited to that session by Michael Dunn. I have participated in one in the past and it is a very exciting and interesting morning. So if your spouse

2 would like to join us, please tell him or her that
3 they are absolutely free to do so.

4 We'll also hear an overview of the
5 105th Congress, what is going on in Congress, what are
6 the important issues, and so forth and so on.

7 We will then move to a legislative
8 issues update focusing on those issues that are of
9 particular importance to the profession.

10 And then we are going to have a
11 session which I would call a Hill visit preparatory
12 session to help you prepare for the visits on Tuesday
13 afternoon.

14 Tomorrow will be ably chaired by the
15 Chair of the Key Persons Coordination Committee, Gila
16 Bronner. Gila is a long-time friend and a member of
17 Council at-large. She is also, I might add, from the
18 great State of Illinois.

19 And, Gila, if you're in the
20 audience, I don't know if the rest of the audience can
21 see you. I frankly can hardly see anybody out there.
22 But, Gila, if you are there, please do stand up and be
23 recognized.

24 (Applause.)

25 CHAIRMAN MEDNICK: Tuesday

2 afternoon, again, has been set aside for your Hill
3 visits. We have forms for you to complete after your
4 visits with your Senators and Representatives and/or
5 their staffs. And please complete those forms at the
6 appropriate time so we get your feedback.

7 On Tuesday evening we are going to
8 have what I think will be a fairly enjoyable reception
9 for members of Congress on the Hill, specifically in
10 the Library of Congress. Again, I've attended those in
11 the past. I think you will be surprised and feel a
12 great sense of pride when you see how many members of
13 Congress, both Senators and Representatives, come to
14 visit us on Tuesday evening.

15 And I'm going to give you a little
16 bit more details when I get to administrative
17 announcements later.

18 We'll wrap up on Wednesday morning.
19 Wednesday morning we're going to start at 8:15. We
20 will have a speaker, a Congressman, who will address
21 us at that time, and then follow up with the remaining
22 Council business for this meeting, which will include,
23 among other things, the Finance Committee Report by
24 recently nominated Vice President-Elect of the
25 Institute, Olivia Kirtley.

1
2 And, again, at the very end of the
3 morning, John Hunnicutt and Gila Bronner will give you
4 an overview of the results of our Hill visits the
5 prior day.

6 Why Washington?

7 As I indicated when I spoke to
8 Council in October, proactively becoming more of a
9 player in Washington on public policy issues in which
10 our analytical and other skills could play a useful
11 role in building relationships with and gaining the
12 confidence of public policymakers in this country is
13 one of my key priorities for this year.

14 We've already made significant
15 progress on this front by the very professional and
16 politically adept way that this profession handled
17 securities litigation reform in the last Congress and
18 also by the outstanding job by our Tax Division during
19 the 1996 election debate on tax simplification, in
20 which we published our highly acclaimed neutral
21 analysis of the social, economic and political
22 implications of various flat tax and consumption tax
23 proposals.

24 Both were important steps in
25 beginning to secure a position as the leading public

1

2 policy resource on major national issues.

3

4 But, quite frankly, building
5 relationships with public policymakers in a very
6 competitive environment I might add is admittedly a
7 long-term effort, which is why I felt it was so
8 important for the members of our governing body, you,
9 the Members of Council, to roll up your sleeves and
10 get personally and directly involved in the political
11 processes by which we as a profession can actually
12 demonstrate both our ability and our commitment to
13 play a key public policy role in this country.

14

15 Other issues that I want to touch
16 on, if I may, at this point, and I will do this very
17 quickly.

18

19 As I, I was going to say, reach the
20 middle of my year as Chair of the Institute --
21 actually, I'm beyond the middle of my year as Chair of
22 the Institute, as I now realize with two successors
23 waiting in the wings --

24

(Laughter.)

25

CHAIRMAN MEDNICK: -- I am probably

26

27 on the down side of this particular cycle.
28 But, quite frankly, I am very
29 satisfied and I hope you are satisfied too with the

2 significant progress we have made over the last six or
3 seven months.

4 And let me just mention a handful of
5 items here.

6 First of all, the newly agreed model
7 for the licensure and regulation of the profession,
8 almost ready, pending your formal vote on Tuesday
9 morning, to roll out to the States, along with the
10 significant benefits I believe this will bring to all
11 CPAs in an increasing complex and global environment I
12 think is a significant achievement and one that I
13 would hope Council would feel great pride in.

14 Second, a very impressive defense of
15 our hard-won gains in the Private Securities
16 Litigation and Reform Act of 1995 by the overwhelming
17 defeat, with significant help from the California
18 Society of CPAs and, in fact, by a 3-1 margin of the
19 so-called The Rock (??) Ballot Initiative in
20 California this past November which would have gutted
21 the Private Securities Litigation and Reform Act.

22 Next, the recent establishment of a
23 Web site by the former Special Committee on Assurance
24 Services chaired by Bob Elliott, to provide guidance
25 to all members on the identification and development

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of new assurance services and to enable them to share ideas in an on-line forum, taking advantage of the opportunities at our doorsteps in today's information age where knowledge, knowledge, is what provides competitive advantage.

Next, the creation of an ongoing Assurance Services Committee, which I hope when we leave this morning, will be the Assurance Services Executive Committee chaired by my immediate predecessor, Ron Cohen, to carry out the Special Committee's work by developing tools and other guidance on such new service lines as ElderCare and Electric Commerce Assurance, which will be covered in more detail on Wednesday morning both by Ron briefly and then by F. Johnson who chairs the Task Force on Electric Commerce Assurance.

Finally, the moving of our all important visioning project from the drawing board into a well-designed plan of execution about which you will hear more from our dynamic executive or project director, Jeannie Patton, later today.

All of these developments are moving us closer today to the day when CPAs will be universally regarded as "the" premier information

1

2 professionals.

3

4 The issue for us today, of course,
5 is whether we can maintain the momentum in a world
6 where technological competitive and other changes
7 continue to occur, if anything, at an ever
8 accelerating pace.

9

10 I believe we must and I believe we
11 will.

12

13 The forces of change are all around
14 us and we have no choice if we are going to maintain
15 and nourish a viable and vital profession in the 21st
16 century.

17

18 Two years ago we brought a new and
19 dynamic president to the AICPA and told him we wanted
20 a new Institute for our membership, one that was fully
21 committed to leadership and a proactive agenda for
22 change.

23

24 Well, I for one am truly amazed at
25 how much Barry and his leadership team have done and
in a very, very short period of time have delivered on
that goal.

26

27 Even more importantly, we now have a
28 governing Council in place who are equally committed
29 to the same goals. Personally I am very proud of this

30

2 body, how Council, our volunteer leadership, has
3 stepped up to the plate at this crossroads in our
4 history with the boldness, vision and even courage to
5 begin to transform this profession into the premier
6 information professionals of the 21st Century for the
7 benefit of both current and future generations of
8 CPAs, as well as the society we are all committed as
9 professionals to serve.

10 You should all take great pride in
11 these accomplishments. And, once again, I want to
12 express my sincere gratitude for your dedicated
13 leadership.

14 Now for some administrative
15 announcements.

16 First, please remember to return
17 your Council attendance forms to the registration
18 desk. We need these for our official records; even
19 more importantly, you need to submit them if you
20 intend to get reimbursement for expenses in connection
21 with this meeting.

22 Second, I am pleased to announce
23 that all of us will receive fourteen hours of CPE
24 credit for attending this combined Council/Key Person
25 meeting. It is a longer meeting. It is also more CPE.

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It says here in my script you get it if you complete the form which you received upon registration and return it to the registration desk at the end of the meeting on Wednesday.

I might add that also means you have to attend all the sessions.

(Laughter.)

CHAIRMAN MEDNICK: Third, we have planned our program to allow limited but adequate time for discussion in connection with each item on the agenda. Council members are encouraged to take advantage of these opportunities to express their views and to ask questions.

In addition, this year we will have two open forums based on suggestions we received from you in the past. One will be at the end of the day today, late this afternoon, and a second will be right before lunch on Tuesday.

As I have consistently indicated to you when I have had the opportunity to speak before Council, as well as I have written in my "Chair's Corner" column in The CPA Letter, we welcome and need -- and I would emphasize -- need your views.

That also applies not just to

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members of Council but to the Key Person Coordinators and Committee Chairs who will have the privilege of the floor throughout this meeting -- and I would urge you to take advantage -- as well as obviously State Society Executive Directors and those special guests who have been invited to be with us.

The only thing I have to caution you is that when we do vote on resolutions, bylaw changes, whatever else, only Council members can vote on those formal proposals and motions.

While the Chair may accept a motion that is not in writing, the submission of written motions certainly adds to the order of the meeting and the clarity of the discussion.

Accordingly, I would ask that any motions, in addition to those already in your kits, be submitted in writing. If they are detailed or complicated, we would also ask that they be given to us ahead of time so that we can have them duplicated and distributed to each voting member to help them know more precisely what it is being voted on.

Next, I would like to point out that several members of the Institute executive staff are in attendance to assist, if needed, in our

2 proceedings. While I do not intend to introduce each
3 individually, I would ask that you seek them out in
4 the course of the next several days since they are
5 eager - and I can assure you they are eager to hear
6 your opinions on the many issues facing the Institute
7 and the profession at this time.

8 I would also like to point out some
9 important information that is available to you at this
10 meeting.

11 First of all, an information display
12 out in the foyer will give you some basic background
13 on the fiscal condition of our Federal government.
14 Among other things, it tries to put the national debt,
15 the interest on the debt and the need to balance the
16 budget and curtail spending on entitlements into
17 better focus.

18 These charts are factual and should
19 help you better understand the problem our elected
20 leaders, who, again, you will be meeting with on
21 Tuesday afternoon and evening, the kinds of problems
22 they face in dealing with our national fiscal crisis.

23 We provide this to you because it is
24 possible that during your Hill visit you may get
25 questions from your representatives, direct or

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indirect, on how you would recommend solving some of these issues and problems. And hopefully this will help put into perspective the kind of issues that need to be dealt with in balancing conflicting points of view.

For a little fun, if you look in your conference folder there is a short ballot - I think it's up front in the folder - on how you would solve these issues of this day.

Please examine the charts on the display, fill out the ballot and deposit it in the box at the AICPA registration desk. We will announce the results on Tuesday morning before we go up to Capitol Hill.

At this time I would like to also point out that two State CPA Societies, the Pennsylvania Institute of CPAs and the New York Society of CPAs, are in the process of celebrating their one hundredth anniversary, a major milestone and a great accomplishment.

I would like to add my personal congratulations to Bob Gray, Bert Trexler, the voluntary leadership of those two societies, and all of their members on achieving the significant

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milestone.

Finally, at the end of today's session there will be a booth related to the visioning project located in the registration area. Leigh Knopf, who is AICPA vision team leader, will be there to answer any questions regarding the project and to provide you with additional information.

And, again, you will get a significant update on the visioning project later this afternoon.

At this point I am going to stop and try to catch my breath for a second and ask if anybody has any questions at this point in our program.

(No response.)

CHAIRMAN MEDNICK: I was going to say I don't see any but I'm not sure how much I see with the lights in my eyes here.

But I don't hear anybody.

So I will move on and deal with the first item of business on our agenda, which is filling a number of Council vacancies that exist at this time.

Before I do, and I'm reminded, let me make one more general comment. One of the real benefits of these meetings is the opportunity we all

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have to create or build lasting relationships with other leaders in the profession across the country.

This can be of significant value -- and I know this personally -- in the years ahead both in terms of your professional practices and other professional activities.

As previous chairs have done, I would sincerely urge you to take full advantage of this opportunity for networking.

And now I will move on to the first item of business, which is the election of Council Members to vacant seats.

In this respect - and, again, I think you have resolutions in your folder - we must elect a Council Member-at-large to fill the term expiring October of this year, October 1977, of Vincent M. O'Reilly of New York who has resigned his seat on Council.

The Board of Directors is pleased to recommend Raymond L. Dever, a former Member of the Board, to fill the vacancy of Vinnie O'Reilly for a term expiring October 1997.

Can I have a motion for Mr. Dever's nomination?

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A COUNCIL MEMBER: So move.

3

CHAIRMAN MEDNICK: Is there a

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second?

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A COUNCIL MEMBER: Second.

6

CHAIRMAN MEDNICK: Are there any

7

other nominations?

8

(No response.)

9

CHAIRMAN MEDNICK: If not, the

10

nominations are closed.

11

I would ask all of those in favor of

12

the election of Raymond L. Dever for a term on Council

13

expiring in October of 1997 to signify by saying

14

"aye."

15

(Chorus of "ayes.")

16

CHAIRMAN MEDNICK: Any opposed?

17

(No response.)

18

CHAIRMAN MEDNICK: The "ayes"

19

obviously have it.

20

Ray, if you're in the audience, why

21

don't you stand up and be recognized and welcome

22

aboard.

23

(Applause.)

24

CHAIRMAN MEDNICK: We must also

25

elect a Council Member to fill the term expiring

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October 1997 of Erling Dokken who passed away last year.

In this respect, the Board contacted the Minnesota Society of CPAs for candidates to fill this vacancy and the Society submitted the name of Lori M. Eglund.

Consequently, the Board of Directors is pleased to recommend the election of Lori Eglund to fill the vacancy of Erling Dokken for a term ending also October 1997.

May I have a motion for Ms. Eglund's nomination?

A COUNCIL MEMBER: So move.

CHAIRMAN MEDNICK: Second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Any other

nominations?

(No response.)

CHAIRMAN MEDNICK: Those in favor of the election of Lori Eglund for a term on Council expiring October 1997, again signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any contrary-minded?

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(No response.)

CHAIRMAN MEDNICK: The "ayes" have
it.

Lori, please stand up and be
recognized, and congratulations on your election.

(Applause.)

CHAIRMAN MEDNICK: We have two
more. Bear with me.

We must also elect a Council Member
to fill the term expiring again October of 1997 of J.
Thomas Hood, who has resigned his position on Council
after assuming the position of Executive Director of
the Maryland Association of CPAs.

First of all, congratulations to
you, Tom, on your new position.

In this case, the Board contacted
the Maryland Association and the name of E. Dawson
Grove was submitted to fill the vacancy.

Again, the Board is pleased to
recommend the election of E. Dawson Grove to fill the
vacancy of J. Thomas Hood for a term ending October
1998.

It looks like Dawson gets an extra
year.

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May I have a motion for Mr. Grove's nomination?

A COUNCIL MEMBER: So move.

CHAIRMAN MEDNICK: Second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Any further nominations?

(No response.)

CHAIRMAN MEDNICK: Those in favor of the election of E. Dawson Grove for a term on Council expiring in October 1998 again signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any contrary-minded?

(No response.)

CHAIRMAN MEDNICK: The "ayes" have it.

Congratulations to you, Dawson. If you're in the room, would you please stand to be recognized.

I don't see Dawson here.

Finally, we have one more vacant seat. It is as a result of the resignation of Reed

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2 Cowan of Council from California whose term would have
3 expired October of this year.

4 This time we contacted the
5 California Society for candidates to fill the vacancy
6 and they submitted the name of Diana P. Sanderson.

7 Again, the Board is very pleased to
8 recommend the election of Diana Sanderson to fill the
9 vacancy of Reed Cowan for a term ending October 1997.

10 May I have a motion for Ms.
11 Sanderson's nomination?

12 A COUNCIL MEMBER: So move.

13 CHAIRMAN MEDNICK: Second?

14 A COUNCIL MEMBER: Second.

15 CHAIRMAN MEDNICK: Any further
16 nominations?

17 (No response.)

18 CHAIRMAN MEDNICK: Those in favor
19 of the election of Diana Sanderson for a term on
20 Council expiring in October of 1997 please signify by
21 saying "aye."

22 (Chorus of "ayes.")

23 CHAIRMAN MEDNICK: Any contrary-
24 minded?

25 (No response.)

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CHAIRMAN MEDNICK: The "ayes" have
it.

Diana, if you are here, we would
like to recognize and congratulate you also.

(Applause.)

CHAIRMAN MEDNICK: Now, I quickly
turn to the minutes of the Fall Council meeting which
took place on October 17-19, 1996 in Chicago.

And those minutes have been
previously distributed with the Council background
materials.

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

A COUNCIL MEMBER: Move it.

CHAIRMAN MEDNICK: Second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Any discussion?

(No response.)

CHAIRMAN MEDNICK: Those in favor
again signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any contrary-
minded?

(No response.)

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2 CHAIRMAN MEDNICK: The motion
3 carries and the minutes of the October 17-19, 1996
4 meeting are approved as distributed.

5 At this point I would like to move
6 to our video update which among other things this year
7 captures some of the exciting flavor of the efforts
8 within Washington by our highly able staff just about
9 a block down the street here.

10 Following the video, Barry and I and
11 others will be available for any questions you might
12 have on any of the matters covered therein.

13 If we could dim the lights at this
14 time, I would appreciate it very much.

15 Thank you.

16 (A video was viewed by all
17 assembled.)

18 CHAIRMAN MEDNICK: Are there any
19 questions or comments that anybody would like to make
20 on this video which I think does a very good job in a
21 capsule fashion describing the kind of activity we
22 have in Washington and what our Institute leadership
23 is doing for us on a daily basis in this City.

24 Any questions or comments?

25 (No response.)

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2 CHAIRMAN MEDNICK: If not, I want
3 to move now to a report, a strategic planning update.

4 And I would ask Bob Elliott, the
5 Chair of the Institute's Strategic Planning Committee
6 to please come up to the podium.

7 With Bob coming up, I think it's
8 almost an understatement on my part to say that I
9 believe you will be both very well informed and very
10 energized by this update on one of the more important
11 committees and committee activities within the
12 Institute.

13 Bob Elliott.

14 MR. ROBERT ELLIOTT: Thank you very
15 much, Bob, and thank you for the opportunity this
16 afternoon to update you on strategic planning at the
17 AICPA.

18 Let me start by asking the question
19 why is it that we should be concerned with strategic
20 planning.

21 First, as you all know and I've made
22 clear in prior presentations to this Council, our
23 members are facing a changing environment
24 technologically, politically, economically. And what
25 we need to do is to recognize those changes and how

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are they are going to affect our practice.

And so the question is do the historical strategies that we have used as a profession continue to be the right ones to use in the future.

And, finally, what we need to be concerned with is that the AICPA has finite resources. And the question is how should we deploy these finite resources in order to identify and execute the strategies that are going to be in the best interests of our members and the public.

Now, in order -- to continue, I want to focus on a couple of terms here.

First, what do I mean when I say strategy?

I mean nothing more than a precommitment to a course of action. It's simply to agree in advance that when faced with situations, we are going to act in a certain way.

And then strategic planning has to do with looking into the future and trying to see how the future will be different from the present and the past so that we can select the most effective strategies going forward.

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As you'll recall from the presentations that I've made to you on assurance services over the last several Council meetings, that was one of the things that we made a tremendous effort to do, is to look into the future, ten years into the future, to see how things would be changing so that we could select the right strategies going forward.

So that's strategic planning.

But even more important I think is strategic management, that is, taking these strategic plans that we develop and absorbing them into the day-to-day operations of the AICPA.

Now, strategies are not necessarily good or bad. The question is will they be effective or not.

So let me just give you a very simple example here.

Let's say that our objective as an enterprise is to increase our market share. We could look for strategies to do that. And one strategy might be to authorize all of our sales people to underbid any legitimate competitive offer.

Now, I think you can see how, if all of our sales people did that, over time we would gain

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2 more and more market share.

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So is that a good strategy?

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5 And the answer is that that could be
6 a very bad strategy if we have a well-heeled deep-
7 pocketed competitor who knew about this strategy and
8 was able to consistently bid under our cost, thus
9 driving us out of business. And because this
10 competitor is well-heeled, he will then take the
11 market share and be able to raise prices and do very
12 well.

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13 So that's an example of how we can
14 have a strategy that might not be so good for the
15 future.

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16 Or we could focus on a couple of
17 strategies of other businesses and see how these
18 strategies aren't always the best ones for the future.

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19 For example, if you were a
20 typewriter manufacturer and you stayed with that
21 business, you found that that wasn't a very good bet.

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22 Well, some of them went in to become
23 dedicated word processor vendors and that didn't turn
24 out to be a very good step either because companies
25 that did that went broke, and what we found out was
that the PC took over all of those businesses.

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2 Another example is spy planes. We
3 had the planes that could go the highest and the
4 fastest around the world, but, of course, the
5 availability of a large network of spy satellites
6 meant that spy planes became an obsolete technology.

7 And then, of course, we have the
8 proverbial buggy whips that everybody speaks about all
9 the time.

10 Now, in the AICPA we've had a number
11 of strategies that we've employed over the years.
12 Remember, these are precommitments to courses of
13 action that I have been talking about.

14 One of the strategies that we
15 started in the late nineteenth century was the
16 strategy of licensing in order to get monopoly
17 protection for the CPA. So that's a strategy that
18 we've employed for over a century and with tremendous
19 success.

20 Another strategy is our strategy of
21 owning the scorecard, in this case, the creation of
22 Generally Accepted Accounting Principles, so that we
23 as CPAs develop these principles and then what we can
24 do is we can sell the scores on an annual basis.

25 And you will recall that I told you

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2 during the Assurance Service reports that that was
3 part of our strategy going forward, to develop the
4 measurement criteria in new areas.

5 So this is one of our successful
6 past strategies.

7 Another one that we followed, of
8 course, is continuing education. And that has been
9 very successful for us.

10 Performance standards; over the
11 years we have developed standards for the way in which
12 CPAs perform their work which assures high quality,
13 assures that the public will be satisfied, and enables
14 us to project a crisp image of high quality work to
15 our publics.

16 And, of course, part of the deal is
17 the ethical standards that we set for ourselves,
18 including independence standards, and the way in which
19 over the years we have enforced those standards
20 through our Ethics Division and all of the machinery
21 that goes with that.

22 And, of course, we have our Quality
23 Review program, including peer review, as a way of
24 disciplining practice and making sure that we have
25 those high quality standards.

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2 And, finally, I could point to our
3 focus over the years on financial statements.

4 Now, when I say financial
5 statements, I mean that somewhat broadly. For example,
6 a tax return is a form of specialized financial
7 statement. So I include tax returns.

8 But, nevertheless, what we have
9 focused on as a profession has been largely financial
10 statements and tax returns.

11 So those have been very successful
12 strategies for us.

13 But one of the things that we have
14 to look at here is that strategies don't last forever.
15 That's the point, right? The environment changes.

16 And so we can look at these, and I
17 would say to you if we look at this list, what we have
18 is we have a set of strategies that are largely good
19 on a going forward basis, but some of these we might
20 have to take a look at.

21 For example, if we look at licensing
22 as a strategy, that's the monopoly protection that
23 CPAs enjoy for audits and financial statements. But as
24 I reported to you in the last meeting, many, if not
25 most, of the new opportunities that we have as CPAs

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will be in unregulated territories, places where we do not have a statutory monopoly, places in which we are going to have to compete with a large number of well-heeled competitors. And we are not going to be able to rely on a monopoly, a licensing type of monopoly, in order to exploit those opportunities.

So while licensing has been a great strategy in the past, it might not carry us that far forward into the future.

Another one, at the bottom of the list there, the focus on financial statements. As I reported to you, there is an explosion of types of information available to decisionmakers besides financial statements and financial information. And to a large extent we, as CPAs, are not being involved in either the production of that information or the quality assurance of it.

So those are examples of a couple of strategies that we might want to take a look at as to whether they are the right ones going forward.

So strategic planning then in the Institute is about these issues, which are the historical strategies that we want to keep, which are the ones that we need to eliminate, and which new

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strategies do we want to add to the mix.

So the question is how do we decide on these things.

And the answer is that we have a planning structure in the AICPA. And that structure starts with you. The Council, the governing body of the Institute, is ultimately responsible for everything.

And then, of course, on a daily basis you delegate a lot of that responsibility to our Board of Directors.

Well, the Board has a lot of business that it has to attend to. And so what it does is it sets up this Strategic Planning Committee, which is a direct reporting committee to the Board of Directors and has a number of Board Members on it.

So the Strategic Planning Committee then is responsible for these types of things:

First, to develop broad objectives for the AICPA;

Secondly, to recommend strategic initiatives and action plans to pursue in response to long-term issues and trends;

And, thirdly, to collaborate and

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2 coordinate with the State CPA Societies because there
3 are a lot of areas where our strategies are
4 complimentary and overlapping and where we can gain a
5 great deal of synergy if we work together.

6 So that's in a nutshell what the
7 Strategic Planning Committee is concerned with.

8 But there is another component of
9 the structure, and that's the Strategic Planning
10 Advisory Subcommittee. Now, this is made up of
11 representatives of some of the key committees in the
12 Institute. It might be the Chairperson of those
13 committees or it might be someone on those committees
14 who is particularly interested in and adept at
15 strategic planning.

16 So the Advisory Subcommittee then
17 advises the Strategic Planning Committee on its work
18 and assists in integrating and coordinating the
19 strategic plan of the Institute with the strategic
20 plans of all the various committees.

21 In addition to that then, we have a
22 number of committees of the Institute which have been
23 asked by the Strategic Planning Committee to do their
24 own planning.

25 We have in the Institute about a

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2 hundred and twenty-one committees. And what we were
3 finding is that some of those committees were doing a
4 terrific job with strategic planning and they were
5 coming up with initiatives; others were not looking at
6 strategic planning and they were not doing it at all
7 in a coordinated fashion and so forth.

8 So a couple of years ago the
9 Strategic Planning Committee identified twenty-two
10 committees of the Institute - and they're the ones
11 that are listed there - and asked them to go into the
12 strategic planning for their particular area of the
13 Institute, and for the other committees not to do
14 that, not to take the effort to duplicate what was
15 being done at the level of the Institute as a whole
16 and at these key committees.

17 So the Strategic Planning Committee
18 then coordinates and reviews the plans of these
19 twenty-two committees in order to make sure that they
20 are all consistent with the AICPA's plan.

21 So what we have asked these twenty-
22 two committees to do is to form a vision of the
23 desired future for their constituency within the
24 AICPA, and then to figure out what initiatives and
25 strategies are required in order to fulfill and

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2 realize that vision and to show us how what the
3 committees are doing ties in to what the AICPA's
4 overall strategic plan is.

5 Now, what we have found in the past
6 was that some of these committees were undertaking an
7 enormous strategic planning effort, going outside for
8 outside consulting, looking at the entire environment
9 well into the future and so forth, a full scale
10 strategic planning effort, which to some extent
11 duplicated work that the AICPA was already doing.

12 So we asked these committees to
13 really focus on these three elements and just bring
14 those issues to the top planning committee.

15 Now, in addition to the structure of
16 a committee type that I talked to you about, of course
17 we have the AICPA staff. And the staff relates to
18 Council, the Board and all of these committees on a
19 daily basis carrying out and developing strategic
20 plans. So that is a very important component of our
21 structure.

22 Another important component is the
23 Finance Committee. As we go through the budgetary
24 process in the AICPA every year there is a tremendous
25 effort made to make sure that where we have

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discretionary funds available those funds are committed to the new strategic initiatives of the Institute.

And so the budgetary process is very much concerned with the elements of our strategic plan and how they are carried out.

And then there is one last component to this, and that is the Committee Operations Committee, another Board-level committee that, in effect, looks at all of these various committees we have in the AICPA to make sure that we have the right committee alignment, the right charges to these committees, we don't have overlaps, we don't have holes in our structure, and to make sure that there is coordination with the strategic plans for the AICPA.

So now the process that the Strategic Planning Committee goes through is to start with the Institute's mission.

Now, as you recall, we had a Mission Committee some years ago that developed a Mission Statement for the Institute. And I'm sure that most of you are highly aware of what that statement is. It has been modified and tweaked a little over the years, but it's essentially still the same one that we developed.

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And, of course, it's to provide our members with the resources, information and leadership that enables them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. And the Institute works obviously collaboratively with the State CPA organizations and, as you all know, we give priority to those areas where public reliance on the CPA's skills is the most significant.

Okay.

So starting with that Mission Statement then we drive down to a set of strategic initiatives.

Now, we have added and subtracted initiatives over the years depending on whether things get done or new issues come up. But I'll just brief you on the twelve initiatives that we are currently looking at.

The first one is to inform our members of changes and trends including changes in technology so that our members are able to take advantage of marketplace opportunities.

The second one is to assist our members in expanding new assurance services. That's

2 been an initiative for several years and, of course,
3 the way in which we carried that out was through the
4 Special Committee on Assurance Services. And now that
5 that committee has completed its work, we have handed
6 that task over to the new Assurance Services
7 Committee. As Bob suggested earlier, we hope that by
8 the end of the meeting you will elevate that to an
9 executive committee status.

10 The next initiative is to improve
11 the relevance of business information to users. And
12 our strategy on that was to appoint the Special
13 Committee on Financial Reporting which you probably
14 know as the Jenkins Committee, which developed its
15 report and made recommendations to the FASB and the
16 SEC. And the Institute continues to lobby in support
17 of those recommendations.

18 The next initiative to enhance the
19 effectiveness of our communications and to enhance and
20 promote the value of the CPA designation.

21 Now, although not the only thing we
22 are doing there, one of the most important things is
23 our advertising program. And, of course, later in the
24 Council meeting you will have a report on how that is
25 proceeding.

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2 Another initiative is to achieve
3 uniform regulation for the profession. And I don't
4 need to go into that too much more because we will
5 have extensive discussion on that later in the meeting
6 as we talk about the new programs that we've developed
7 jointly with NASBA that are aimed directly at this
8 initiative.

9 The next one is to encourage
10 recruitment and retention of talented people. And a
11 lot of the Institute resources are devoted to that
12 area.

13 We also have an initiative to
14 improve the education of accountants. And one
15 component of that is our 150-hour program.

16 We have an initiative to align the
17 committee structure to better carry out the strategic
18 plans of the Institute. And our Committee Operations
19 Committee is looking at that area.

20 We have an initiative to reengineer
21 CPE, to create much higher value for our members and
22 take advantage of new technologies in the delivery of
23 continuing professional education.

24 We have an initiative to strengthen
25 collaboration with the State CPA organizations, to

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help them out like giving them access to the considerable resources of the AICPA and to make sure that the programs are coordinated to the maximum extent possible.

Now, sometimes the State organizations have strategies that are particularly local in nature, and not all of the strategies are at the national level, and are something that states can deal with. But where they have an overlap of interest, what we do is we attempt to make sure that we are operating collaboratively.

Recently, in the last couple months, we've added two new initiatives.

One is the development of specializations. And as you know, Bob Mednick has appointed a new Committee on Specialization. It is chaired by Past AICPA Chair Bob Israeloff and will be working very diligently in that area to see what direction we should be going strategically with respect to accreditations.

And then the last one on the list here and the one that we have added quite recently is to develop a shared vision of the CPA of the future, to act as a magnet to pull the profession into the

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future.

I'm not going to say anything more about that because after the break we are going to have a very extensive and I think exciting presentation on just where we are going on developing this new shared vision.

Okay.

So that's the strategic initiatives.

And then what we do is we take those rather broad-sounding initiatives and drive them down to action plans. And those actions take place at two levels.

Our hundred and twenty-one committees obviously of volunteers are committed to carrying through their components of the strategic plan.

And then, of course, we have our considerable staff resources available. And many of the initiatives are carried out almost exclusively at our staff level.

For example, you've been briefed before on our Operation Access, our project to bring together all of the databases in the Institute to create an information asset for this profession. It is

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largely staff efforts that are going into that.

The CPE engineering is largely staff efforts.

The development of our Internet site. AICPA On-Line is largely a staff-driven strategic effort at the Institute.

So we have both our committee resources, our volunteers, and we also have our very capable staff working on these issues.

And then the final element of the Strategic Planning Committee process, of course, is not just to develop plans but to monitor what goes on and make sure that they are being carried out.

So what the Committee does is it checks back from time to time with the staff and with the other committees to make sure that those strategic initiatives and action plans that have been developed are, in fact, being carried out.

Now, here on this slide what I'm showing is our total yearly spending for the AICPA, running about \$132 million.

Now, of course, much of that is committed and it is committed to carrying out those continuing strategies from the past that continue to

2 have value. And so we can't disturb those fundings.
3 Obviously we can always try to do it more efficiently
4 and so forth. But those monies are spent in carrying
5 out continuing strategies: things like standard-
6 setting, things like our ethics process, things like
7 the CPA Examination, and, of course, the cost of goods
8 sold where we're meeting the commitments to members
9 for products and services that we have sold them.

10 So a very large part of the total
11 spending of \$132 million is committed.

12 But there is a component, perhaps
13 something like this small green wedge on this pie,
14 that represents possibly redeployable resources that
15 we could put into new strategies, new initiatives, on
16 behalf of the AICPA.

17 So the question you might ask is, if
18 we had this money available, what would we be doing
19 with it.

20 So what I have here is a couple of
21 hypothetical opportunities. Now I want to focus on and
22 emphasize the word "hypothetical."

23 The Strategic Planning Committee is
24 not considering these at the present time, but they
25 represent ideas of the types of things that we might

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be doing.

One hypothetical initiative might be to enlarge the AICPA tent to cover all independent information professionals.

Now I'll come back in a minute and explain in a little bit more detail what I mean by that, but that's an idea of a hypothetical initiative for the future.

Another hypothetical initiative might be to raise members' market share of business decision information. And I'll come back to that.

And a third one might be to brand new services as CPA services.

Okay.

So if those were initiatives -- and they are not -- but if they were initiatives, what types of strategies might be called into play in order to carry out those initiatives.

Okay.

So for enlarging the AICPA tent - and the reason that I am focusing on that one is that, as we all know, the CPA certificate is grounded in the idea that audits of financial statements should be reserved for licensed professionals. And so the basis

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for the CPA certificate is the audit of financial statements.

But a large and growing percentage of our membership is not directly involved in the audit of financial statements. They are either in public practice firms that are focusing on other areas or they are in industry or government or academe.

So the designation of CPA being grounded in audits of financial statements might be a too limited type of grounding for the future.

It excludes a lot of the people who are involved in being premier information professionals, as Bob Mednick has termed them.

So one thing we might do for the long-term future is to broaden out the CPA designation to, in effect, cover this entire territory of the premier information professional. But we haven't done that yet.

So in the meantime one of the things that we might do is to provide an opportunity within the AICPA for these non-CPAs that we hope will be the types of people who will be CPAs of the future to have a professional home.

So that's what I'm referring to when

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I say enlarging the AICPA tent.

So one of the things that we might do in order to do that is to develop a comprehensive set of associate membership categories that would provide a place that would create value for these other providers of information services and give them a professional home.

And then we might go so far as to encourage or even require them to be members of the AICPA or associate members, just as today we have requirements that people who are involved in auditing of financial statements have membership in the Institute and we require that firms not be able to say they are members of the Institute unless all of their partners are. So we have these ideas of required membership.

So the idea might be to provide these and then get these people in and then, ultimately, to broaden the CPA Exam content domain so that they could become full-fledged CPAs.

So that might be one type of initiative. I hasten to say this is only hypothetical. I'm just trying to show you some ideas.

The second one that we might focus

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on is raising the market share of business decision information.

And some strategies we might employ there would be things like marketing a broader scope of assurance services to inside users, that is, people within the enterprise - management, boards, audit committees.

A second strategy then might be to lobby to extend the Generally Accepted Accounting Principles model to go beyond financial statements and to include an entire business reporting model, incidentally as recommended by the Jenkins Committee.

A third thing that we can do then as a strategy would be to work with the SEC, which has an important regulatory component here as to what the business reporting framework looks like.

And a fourth possible strategy might be to forge alliances with institutional investors. These are the people who have already fifty percent ownership of the debt and equity securities of corporate America. That ownership is going up. These people have a large amount of clout and it is increasing.

And to the extent that they would

2 demand that CPAs be involved with a broader set of
3 information, that would have tremendous implications
4 for raising our market share of business decision
5 information.

6 So that would be the second idea.

7 A third one is to brand new services
8 as CPA services.

9 And the strategies we might use
10 there would be - and I reviewed those with you in the
11 last meeting in October in Chicago - things like
12 bringing new services to market faster than our
13 competitors. This involves changing our historical
14 approach which has been to focus on a fairly long,
15 slow standard-setting process and instead move into a
16 much more high-speed way of doing it in order to
17 establish these new markets for ourselves before
18 competitors can do it.

19 A second strategy then would be to
20 develop the measurement criteria so that we can own
21 the scorecard and sell the scores.

22 And later in the meeting F. Johnson
23 will be reporting to you on the development of
24 measurement criteria in the area of electronic
25 commerce. And that's on a fast track and that's one of

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our examples of how we hope to do that in the future.

A third way, a third strategy that we could use, is to develop new accreditation programs.

Now, the way in which we've used accreditation in the past, as you know, is that we waited until a sufficient number of our members are interested in something, that we then respond to their demands and create accreditation. So we have Personal Financial Planning and we have Business Valuation.

A problem with that strategy is that in both of these cases we were coming late to the party. Other specialization or accreditation organizations already existed and had a larger market share than we have.

So the idea here is to identify new areas that we want to stake out as CPA territories and develop accreditations as a proactive strategy so that we can, in effect, use them to dominate the marketplaces in the future.

And I reported to you in October that we went out, when we were testing the ElderCare assurance product and we had Yankelovich survey members of the general public, over ninety percent of

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the members of the general public said that in order to come to a CPA in order to purchase that service, it would be important for the provider to be accredited.

So we have the new committee in place under Bob Israeloff. It's looking at the use of accreditation programs as a proactive strategy for CPAs to dominate new markets.

And we could even think about things like cooperative advertising between the AICPA and its members.

Now, I'm not putting these forward as initiatives or strategies. These are strictly hypothetical and I want to really reemphasize that.

I'm only doing it to illustrate the way in which we might think into the future and try to figure out what new initiatives and strategies we want to bring to bear in order to maximize the value of the Institute to you, the members.

So, in conclusion, then, what I want to do is come back really full circle to the beginning and remind you that our members are facing a changing environment. It's to some extent obsoleting some of the things that they have done in the past, but more excitingly, it's opening up a lot of new opportunities

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for the future.

And, therefore, the historical strategies that we have used may not be in each case the most relevant ones for the future.

So the question then is how should we at the AICPA redeploy resources in order to create and identify new strategies and execute them in order to create value for our members.

And the approach that we're using to do that is one less of strategic planning, the creation of plans, than it is strategic management, that is, the creation of good plans and the absorption of those plans into our day-to-day operations at the Institute both through the volunteer committees and through our staff.

So that's a brief update on what we are doing at the AICPA in terms of strategic planning.

And we have a couple of minutes. If there are questions, I would be very glad to respond to those questions.

Like Bob I can't see into the audience because of the way the lights are going.

But are there any questions?

CHAIRMAN MEDNICK: Any questions

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for Bob?

(No response.)

MR. BOB ELLIOTT: Okay.

I'll be around during the meeting and anybody who has questions or suggestions or would like to respond to any of the points that I have made, I would very much like to talk to you.

And I thank you for the opportunity to talk to you this morning.

(Applause.)

CHAIRMAN MEDNICK: Thanks again, Bob.

We are obviously very fortunate in the Institute that Bob has given so willingly of his time, first in chairing the Special Committee on Assurance Services -- as a matter of fact, first, in serving on many other committees including the Auditing and Standards Board. Bob and I served at the same time on that board.

He brings vision, he brings boldness to everything he touches. And it is particularly valuable to all of us that Bob has accepted this responsibility in chairing the Strategic Planning Committee.

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We are now scheduled to take a break until 3 p.m. I would ask that you reassemble so that we can start at 3 p.m. sharp. We have a very important and I think interesting update on the visioning project at that time.

One other thing. While you are out of the room, you will find that there are TV monitors just outside the doors that are displaying a number of interviews of young professionals who recently attended a Minority Issues leadership workshop. Please, if you have an opportunity, try to view those videos. I think it will illustrate as much as anything else the critical importance, and I would add opportunity, of achieving greater diversity within this profession.

See you back here at three o'clock.

(Which were all the proceedings at the First Session of Council, which concluded at 2:25 p.m.)

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S E C O N D S E S S I O N

Sunday, May 4, 1997

3:00 p.m.

CHAIRMAN MEDNICK: I would like to make one quick announcement.

I understand that some members of Council may not have yet arranged a meeting for Tuesday afternoon with their congressional delegation.

Gila Bronner, who chairs the Key Persons Coordination Committee, tells me that she will this evening, when the reception starts, be available down here and that she will personally, for any of you who do not have meetings scheduled or at least one meeting scheduled, she will personally work with you and try to arrange a meeting.

Again, I want to emphasize - and I know some of you are coming back to your seats - I want to emphasize that the Hill visits are a very important part of this joint meeting in Washington. I know that all members of Council, even if you have never done a visit to a Senator or a Representative before, will get a great deal out of that visit.

So if you do not have a meeting scheduled, please see Gila Bronner this evening.

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2 Now I'm going to wait just another
3 thirty seconds to let everyone get to their seats.

4 Phil Chenok is, as you can see, up
5 at the dias now. The Institute's Gold Medal for
6 Distinguished Service is awarded to a member or
7 members of the Institute each year whose contributions
8 to the profession are clearly distinguished as
9 compared to the work of his or her contemporaries.

10 Before we can get into the visioning
11 session of the program which will last the rest of
12 this afternoon, I want to ask Phil Chenok, the
13 Immediate Past President of the Institute and the
14 Chair of the Awards Committee, as well as himself a
15 former Gold Medal winner, to announce the results of
16 the Award Committee's deliberations for 1997.

17 Phil, the microphone is yours.

18 MR. PHIL CHENOK: Good afternoon,
19 ladies and gentlemen.

20 It's a pleasure to be here with you
21 to make this announcement.

22 The members of the committee, who
23 are the Awards Committee, in addition to myself are:

24 James Don Edwards,

25 Mary Finan,

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Kathryn Forbes,
Charles Keller, and
Dominic Tarantino.

We met, looked at the recognition,
the criteria for recognition. Bob has just outlined
the fact that this is an award given to somebody whose
influence on the profession as a whole is outstanding
in relation to the contributions made by other
contemporary leaders.

The selection criteria include
quality and length of service, motivation and
influence and personal attributes.

I'm pleased to share with you that
we have two winners this year and I am delighted to
announce who they are.

The first -- and I will not talk at
all about their background. I think that you know both
of these individuals, and when we meet again at the
Fall Council Meeting, you will hear about their
outstanding record.

The first is Robert J. Elliott. Bob,
please stand.

(Applause.)

MR. PHIL CHENOK: Now, you may have

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thought that this was a put-up deal since Bob just made an outstanding presentation.

But I can assure you I had nothing to do with the agenda this year, Barry.

The other winner is Robert L. Israeloff. Bob.

(Applause.)

CHAIRMAN MEDNICK: Now, the Awards Committee also is empowered to grant a Medal of Honor from time to time to a non-CPA who has had a significant impact on the profession over the years.

And this year we selected an individual who has made, we think, a tremendous impact on the rest of us. Again, you will hear about her at the meeting in October, but we have selected Kathryn Wriston as our Medal of Honor winner this year.

(Applause.)

MR. PHIL CHENOK: Mr. Chairman, that completes my report.

CHAIRMAN MEDNICK: Phil, thank you very much.

I can't resist offering congratulations, first, to the committee. Any group that selects two medal winners who have the first name

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of the Bob can't be all that bad.

(Laughter.)

CHAIRMAN MEDNICK: Also, in a very sincere way, I have had the privilege and honor - and it has been a honor - to work with and for Bob Elliott, Bob Israeloff and Kathy Wriston, all three of them, for more than a decade each. And the selections could not have been more appropriate.

And I look forward, as I'm sure all of you do, to the actual presentation of the medals when we are together again in October in Tucson.

Congratulations to both Bob's.

I would like now to turn to one of the most important, if not the most important, initiative on the Institute's agenda, our visioning project.

It is, as you all know, an extremely ambitious effort and it will be the key to our future success in a very fast-changing, complex and global economy.

We will begin this part of our program with a presentation from Dr. Richard Schroth, a Senior Fellow from The Wharton School, who is one of the foremost strategists, visionaries and speakers on

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the application of emerging technologies.

President of Executive Insights, Ltd., Mr. Schroth is continually researching and developing cutting edge material on new business and management frontiers.

In this capacity he also serves as a strategic advisor to many of the top CEOs and other corporate leaders in this country.

Richard's presentation is intended to set the stage for our consideration of the numerous opportunities that our visioning project provides to us as an Institute and profession.

Following his presentation, you will receive a detailed report on the progress of the project and future plans.

It is, indeed, a pleasure for me at this time to welcome Richard Schroth to our meeting this afternoon.

The podium is yours.

(Applause.)

DR. RICHARD SCHROTH: Well, for all of you, I know being here on a Sunday afternoon in beautiful Washington when it's warm outside, listening to the opening comments that deal with information

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2 technology, God bless you on this subject.

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4 What I wanted to do today was to
5 share with you some of the work that I have been
6 doing, both at Wharton but also, more importantly, in
7 the independent work I do with chairmen and executives
8 throughout this country.

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9 As was mentioned before, one of the
10 roles that I play is actually working with CEOs and
11 leaders, not as a consultant -- there is a very
12 significant difference between the word "consultant"
13 and an "advisor."

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14 Consultants do have deliverables. I
15 have managed to create a new work role, which is an
16 advisor, which does not have deliverables. Those of
17 you who want a special seminar on that later, I'll
18 talk with you about that.

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(Laughter.)

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20 DR. RICHARD SCHROTH: The role
21 though with these folks is actually as a private
22 educator because the information technology is
23 changing so fast that even the individuals, our most
24 senior executives in our organizations, are still
25 seeking that information and knowledge from
independent sources, much like yourself.

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Even though they may have thousands of IT or information specialists, they still right now are looking for some private mentoring and to be able to say I don't understand this stuff, I really don't understand it.

So what I'm hoping to do today is share with you a number of the different frameworks that are going on in both the business executives and some frameworks that you might keep in mind as you begin to develop your visioning process.

Hopefully, those will lead you, as you go up through the next parts of your conversations and discussions here over the next few days, to give you some new thoughts or approaches to this.

Now, I am not a CPA. I just want to establish that.

The first thing that I wanted to share with you is some of the experience right now that I am having as I look at the executives themselves.

And these are individuals who I consider to be the senior decisionmakers in the organization.

The first issue that we have, and I

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2 feel very strongly about, is that we - and I've looked
3 at most of you in this room -- we are actually the
4 last group I believe to manage through this final
5 leg of the industrial age. We really are hitting it.

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7 I believe that there is a group --
8 and I can't tell you exactly where the age range is
9 now. I do not believe it totally is even the kids in
10 college yet. I think they're still going through the
11 last part, because many of our colleges and
12 universities have not even caught up yet either with
13 technology.

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14 But there is another group of kids -
15 - and I know that I have one at home. I'm looking at
16 the second right now and some question, trying to get
17 her into that group, sort of out of the other one --
18 age around ten who just intuitively get it, just
19 intuitively; in fact, the thrill is not to be told.
20 Okay?

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21 I was down the basement the other
22 night and there was a game, Nintendo, going on,
23 Nintendo 64. And a new little boy had just come in and
24 they were playing Nintendo Soccer.

24

25 And I said, "Steven, would you like
to have Andrew show you what to do?"

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He said, "No," relatively insulted.

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And I said, "Why not?"

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And he said, "That's half the fun,

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learning the buttons."

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Well, I don't know how many of you

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out here think that half of the fun is learning the

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buttons.

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(Laughter.)

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DR. RICHARD SCHROTH: I certainly

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don't.

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And that's an intuitive difference

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about this group coming up. There is an intuitive

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nature.

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The same story. A week ago -- as you

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know, Beanie Babies have become a significant issue in

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most people's lives if you have grandchildren or

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children.

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And the Beanie Babies are hot items.

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Now, in our house we have quite a

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few computers around. So the kids have a lot of access

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to different things.

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I walked into the other room and I

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saw my son at one of the Internet sites. And I went in

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and said, "What are you doing?"

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2 He said, "I'm just checking out
3 those Beanie Baby sites.

4 I said, "You got to be kidding me.
5 There is a Beanie Baby site?"

6 He said, "No. There's three hundred
7 Beanie Baby sites and I'm working my way through
8 them."

9 And I said, "You got to be kidding
10 me."

11 And he said, "No, no, no. Look,
12 dad." And he handed me this checklist that he had
13 printed off. And it's a checklist of all the Beanie
14 Babies that were available.

15 I said, "Well, what are you doing
16 with that?" I said, "I see you have a lot of checks on
17 it." I said, "We're not going to order all of those."

18 He says, "Oh, those aren't all my
19 checks." He said, "The kids at school didn't know how
20 to get these things either. So I ran off a bunch of
21 copies, went to school, took some orders and I'm just
22 getting ready to figure out how to process it."

23 (Laughter.)

24 DR. RICHARD SCHROTH: It never
25 dawned on me to do that. The kid's in the black market

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already.

(Laughter.)

DR. RICHARD SCHROTH: This is a transition. It really is a transition. It's the first time I think we've seen this for a long time.

That brings me to some of these points that you see in front of you where the executive is actually making these transitions right now. And it's very, very difficult.

The first one really has to do with believability of the events.

If I were out here and I really asked you the question how many of you believe that all of these "Nets" and things, it's really happening, most of you would raise your hands.

But when I get you all on the side, one-on-one, and I really start querying whether your organizations, companies, institutions, or whatever, are taking full advantage of the strategy of those things, most of you would not be.

I can cite to you so many different examples of companies where the embarrassment of this has come to fruition in front of the chairman with the senior people in the room.

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2 I'll give you a couple of examples
3 of this.

4 One very well-known
5 telecommunications corporation, which happens to be
6 one of the largest in the world -- I was addressing
7 their business staff. And these were people who report
8 directly to the chairman.

9 And I gave them this question, I
10 said, "Do you really believe that there is more
11 Internet access now in the homes and that's going to
12 continue on for the next number of years?"

13 And I got one of these (indicating
14 yawning) "okay, another speaker just came in and this
15 is going to be a boring one."

16 And I said, "So obviously you
17 believe that."

18 And they said, "Yes, yes, we do
19 believe that. Go on."

20 And I said, "Okay. Let's just take a
21 look at some sites." I said, "So, let's get on the
22 Internet."

23 And they said, "Oh, another Internet
24 demonstration."

25 I said, "Okay. Let's try WEB TV. We

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are going to use the Web Television, not use the computer."

And they said, "Well, wait a minute. We've heard about this Web TV. What is it?"

And I kind of looked at them like, "okay, so you are not really up-to-date at this point and we'll see where we go from here."

And so we turned on the Web TV. How many in the audience, by the way, have Web TV at their house?

(Scattered show of hands.)

DR. RICHARD SCHROTH: Terrific. Terrific. Another audience in this group here.

Anyway, we turned the WEB -- by the way, WEB TV, if you don't know, is the largest acquisition that Microsoft has made, \$490 million, just recently. You may want to look into it because it does change your distribution channels also.

And one of things that occurred to this particular group, when I turned the power on, it started dialing. And we got connected to the Internet.

And so the first question from the group was, "And, so, who is the service provider?"

I said, "You don't know?"

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They said, "No."

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I said, "Rambling Pit's the service provider."

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They said, "That has some serious implications, doesn't it?"

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I said, "Yes, it does, especially for a phone company."

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At that moment we started to really realize that the believability of the events are separated from what we talk about and say to what we do.

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I'm very concerned at the corporate vocabulary and individual vocabulary level when I hear words like "been there," "done it," "seen it." I really troubles me. I get very upset with that. Because the fact is we are just discovering it.

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Now, you'll see the second point up here, which is the corporate vocabulary continues on in the same way.

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Our corporate vocabulary has traditionally come out of industrial management theory, especially in your area of accountancy where once we had a term and a definition for it, we pretty much locked that in.

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2 Now, in a minute I'm going to spend
3 just a little bit of time talking about a physics law
4 called Moore's Law, which some of you may be familiar
5 about.

6 But Gordon Moore, who was the
7 Chairman at Intel around the 1970s, developed an
8 algorithm which basically said that the number of
9 transistors on a chip doubled every two years.

10 And it has actually been about every
11 eighteen months, to be quite honest.

12 Now, what that means is that there
13 is real laws of nature working here on the pace of
14 change.

15 And so whether we like it or not,
16 this isn't like reengineering or other phenomena that
17 we've gone through and will pass too. This is actually
18 something that is continuing in great speed.

19 I was just sitting in the back
20 thinking about some pieces of the presentation here to
21 share with you today. And one of the things that came
22 to mind was, if you benchmark January 1st of 1997 with
23 a index number, let's just say 10, and you apply
24 Moore's Law to that, in June of 1998, we are going to
25 see a processing speed of 100, an index of a hundred.

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It doubled.

In the year 2000, which is your vision plan, 1st of January, if you apply Moore's law in physics, that base of 10 is now 10,000. That is the pace and gap of change and speed of processing that we are going to see continuing.

And the difference that has happened now versus what's happened three or four or five, even six years ago, is that the exponentials are starting to really kick in and we are going to see unprecedented change because of this physics law.

And the organizations that are too short-sighted in their vision are going to get blown away because while it will work for that short-term, the next number of years that follow, the next number of months, in fact, are going to cause a total reinvention again.

Again, let me give you an example.

Right now many of you are working on databases for your financial systems, the massive database warehouses.

But the visualization of that data is going to be even more important. And in the next eighteen months to twenty-four months, as Moore's Law

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comes into play, the ability of our fiber and of our computer systems on our desktops to now carry visualized data versus something that's as archaic as Lotus spreadsheets or other kind of databases is clearly going to be our future.

And the certification process that you all have a responsibility now may turn away from even things like numbers and turn to things like the certification of visual objects because those visual objects will be the things telling the story, not necessarily just the numbers.

While the numbers are underneath, there will be so much interpretation applied because of our processing power that we actually may have a very difficult time certifying any of those base points.

So when you think of your vision, one of my goals today is to begin starting to move.

Now, many of you here hopefully will, like myself, be able to retire fast enough not to deal with this stuff.

(Laughter.)

DR. RICHARD SCHROTH: Okay.

But you still have the legacy

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problem, okay?

So you need to help develop this legacy component.

Now, one of the other interesting things that I'm finding in the executive transitions that people are making is this kind of learning on demand.

In smaller audiences where we have a small, intimate group and we can have conversations, one of the first groups of questions I always ask folks is, "how do you learn? how do you keep up with this stuff, especially information and communications technology?"

And many of them will say, "Well, they attend conferences like this," or "we read our trade publications," or "we read continuously."

And what I'm really finding the, what I call, the best and brightest are doing is almost given up reading in the sense of publications or even attending conferences. Many of them are mostly speakers now.

But what they're doing is they're learning right before the event. They are using the tools of the Internet and of other components that

2 they have access to to quickly review the process in
3 real time so that when they meet with a vendor or they
4 meet with an organizational group, they find at that
5 moment the answers they need.

6 And it's raising some serious
7 questions inside of companies because it is starting
8 to distinguish what I call the superstars from those
9 folks who are not superstars.

10 Now, I also have some other theories
11 that you are going to hear about today, but I believe
12 these superstars are starting to recognize their
13 stardom and they are becoming free agents because when
14 they start to get frustrated that the organization
15 isn't keeping up with them or isn't learning as fast
16 as they are, we're starting to see them take to free
17 agency, especially with all the IPOs and new ventures
18 that we are seeing start up these days.

19 The superstars are very hard to
20 keep.

21 And so learning on demand is very
22 much part of all of your futures because I, as an
23 educated customer who may come to you, or my client
24 who may be a corporation, very likely will be much
25 more educated in their questions and their issues,

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2 keeping up with your current events then you've ever
3 seen before.

4

And these events may be very much of
5 interest to them.

6

For example, your on-line
7 legislation, or your on-line information, you know, as
8 you think of that, is not necessarily any more limited
9 to just your organization. It very likely will be
10 needed to be opened up to many people seeking
11 information that you never thought would have access
12 to it and sometimes by serendipity they will find that
13 information and use it.

14

And so, again, in your planning
15 process the concept that needed an association and its
16 membership starts to become an unknown issue how to
17 exactly to deal with.

18

And that query leads to the next
19 bullet which is about focus and technology change.

20

There are many, many, many good
21 books out right now about focus. Let's focus, focus,
22 focus. That's what we need to do.

23

And yet every time we focus, we
24 continually commit to our poor value structures or we
25 redefine our core. And technology comes in and is

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constantly pulling at them.

One of the most difficult parts I have seen is when an organization tries to reinvent itself by trying to focus and broaden at the same time. It is just very difficult.

When you get into this situation, and it's very interesting -- and this doesn't necessarily apply to your organization here, but does apply to many of your practices or personal organizations -- and they start talking about the virtual group or the virtual organization, I am finding that none of them are surviving in a company of traditional basis. They can't grow this group.

The income stream isn't appropriate, they can't figure out how to make money given all the basic pieces, and those that are succeeding are actually spinning out these corporations into little startups and letting them try to survive on their own.

And so that's how in a lot of cases we are seeing focus taken on its own merits is to actually be spun out.

Now, if we had a long time to spend today, I would tell you one of the characteristics of

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winning organizations in the future is going to be to learn how to deal with the startups and how to deal with divestiture and acquisition in a very rapid way.

Again, your role as CPAs is going to become very important here because many corporations are going to have to deal with this at a much faster pace than they have ever had to experience before.

And your role in learning how to assess these components -- and I'm going to talk about that in just a little bit -- is going to become even a bigger factor.

And, finally, on this list of executive transitions that I'm seeing very difficult for many organizations to make is the working definition of customer and consumer relationship.

I'm finding again we apply our industrial model thinking to this stuff where we see the customer as something that is between the consumer and us. And, quite honestly, we are even building organizational words, like "intranets" and "internets" and "extranets" to deal with that definition.

But, quite honestly, I'm not sure yet that we can call a straight line right down the middle of these terms because in many cases the

2 consumer is going to be the customer because part of
3 the goal is to eliminate that middle component.

4 And when we start to see
5 organizations who structure themselves to preserve
6 that structural middle and they start working with
7 their suppliers and distributors, we begin to see that
8 that supplier/distributor is going directly into the
9 consumer anyway.

10 And so many organizations right now
11 are really struggling with this issue and need help.
12 They need financial planning help to know how to deal
13 with this.

14 A perfect example, by the way, is in
15 the automotive industry or the insurance industries
16 where right now, if you talk to them, yes, we have web
17 presence. And yet you may go to the web and you'll
18 find, for instance, in Volvo, there are four hundred
19 and fifty Volvo web sites, everything from their
20 distributor to the Volvo Corporation.

21 And in many cases you find that
22 Volvo has divided itself into two companies, a U. S.
23 Volvo and an international Volvo, both of whom have
24 their own web sites.

25 And the worldwide message is very

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2 confusing because the fact is you can't control it
3 going to a locality. It goes globally.

4

And so we begin to start to
5 understand that we are just at the cusp of
6 understanding these terms. And, again, I go back to
7 the vocabulary concerns I have.

8

There is actually another law, I
9 believe, emerging around this pace of change. And it's
10 a vocabulary law, and it's a corollary to Moore's Law.
11 And that means it doubles, the vocabulary changes at
12 the same pace as the technology.

13

So one of the things that I would
14 really encourage all of your organizations and your
15 certification processes, et cetera, is to continue to
16 look at words not as finite definitions, but as
17 continually changed. And that helps, by the way, drive
18 people to begin to relearn these processes because
19 they are going to change significantly.

20

Another significant part I want to
21 share with you in your planning process, outside of
22 some of the executive transitions that are going on,
23 have to do with absorption rates, that we see things
24 absorbed into society today.

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It's pretty interesting. If you look

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at this chart we have up here, you'll see that many of the items, in fact the first groupings of items here, predominantly have been physical items that we've put into place as part of our communications and electronic infrastructure: pagers, telephones, cable TV, et cetera. And you'll see the years it took - forty-one years, twenty-five years, et cetera - were pretty extensive years. They gave us time to plan.

But as we have begun in the shorter-term field, when you see cellular phones and PCs and CD-ROM drives, to hit 10,000,000 consumers, the consumer electronics industry has really kicked in. And, by the way, this is one that business does not pay much attention to.

If I could ask another question of the audience, how many of you, not your sons or daughters -- well, I'll let you do that -- how many of you have Nintendo 64 at home?

(Show of hands.)

DR. RICHARD SCHROTH:

Congratulations.

It's a good example, by the way, of the absorption that we're starting to see. More and more folks, if you to start to look at Nintendo

2 installed, particularly 64, there are over 10,000,000
3 users right now, just that one electronic component.

4 Now, as we begin to see the
5 electronic commerce part come, what we start to see
6 are even shorter absorption times because more and
7 more of our work is turning towards service. And the
8 more we turn towards service, the more it's supported
9 by information.

10 And the more it is supported by
11 information, it is going to take advantage of this
12 installed infrastructure to be able to distribute
13 very, very rapidly to groups of 10,000,000 and more
14 literally within a six-month period or less.

15 If you look at Netscape that has
16 come on very quickly or even Microsoft that has been
17 around, the next generations of distribution for
18 Explorer for the Internet or for the Netscape products
19 take approximately less than six months to a fully
20 installed base of over 10,000,000 out because it's
21 software driven.

22 And this is going to be very
23 important to you and your industry as you begin to
24 become a premier information group because the
25 distribution of your software or the agents that will

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be out there and the changing and updating of those aren't going to take place in the time period for your committees to meet. It's going to take place very rapidly.

And as the Web TVs become more inventive in televisions, and we see this change actually occur, the ability to get that service functionality out to people faster, new financial planning tools, new tax planning tools, et cetera are relatively instantaneous. We have not seen that before and it can radically change the marketplace very quickly.

So I ask you to bear in mind, as you go through your planning processes, to look at how fast will these things get absorbed as we make these changes, how fast could they get absorbed, and how do we deal with that pace of change here in this organization.

As I mentioned Moore's Law is going to be the driver of this and it is an important fact that this is going to be around for quite a while to come.

Now what I would like to do at this point is share with you some imperatives for business

2 that I have been observing more or less. There happens
3 to be ten listed here. Some days there seem to be
4 eight and some days there seem to be fifteen. Today I
5 happen to have ten -- okay? -- because they change
6 quite regularly.

7 But I want to walk you through these
8 to help you get a framework at least how I work with a
9 chairman and how we work with organizations to
10 establish at least a way of thinking about the future.

11 And if I could do anything today, my
12 job is to try to stretch a little bit of how you might
13 focus towards your visioning project.

14 First of all, the first perspective,
15 I would like you all to think about the concept of
16 envisioning a digital strategy.

17 Now this is very different for most.
18 First of all, people will say, "What is a digital
19 strategy?" I don't understand the terms of things at
20 this point.

21 Well, it's somewhere between a
22 corporate strategy plan or an organizational strategy
23 plan and an information technology plan. And its
24 evolution is just beginning. We don't have a good body
25 of research on this right now, but we are beginning to

2 see this very importantly.

3 For instance, if you are a grocery
4 store owner and you have been selling groceries in
5 your family for a long time, even a large chain,
6 you'll start to recognize when you begin to see where
7 information technology is taking you, that groceries -
8 - we're just crossing the curve today -- for groceries
9 are now the second-most profitable item that's sold in
10 the grocery stores, that the information is now the
11 most profitable sold item for grocery stores.

12 It's sold to Pepsi's and Coke's.
13 It's sold to the manufacturers of brands and other
14 items.

15 And, in fact, when they start to
16 look at this, the profitability is starting to shoot
17 up very high because these people are beginning to pay
18 serious money for this. You don't hear the stories
19 anymore of a Frito-Lay man going out with his hand-
20 held thing and doing this. It's back to the grocery
21 store who is capturing this.

22 And as we do this, we are starting
23 to see grocery stores, just to give you an example,
24 starting to think that maybe yield management should
25 become a serious factor of running the store if we

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2 have control over the digital nature of our pricing.

3

4 And so we are starting to see radio-
5 controlled devices on a few store shelves these days
6 where price changing can occur.

6

7 And we're starting to see some of
8 the stores shift so that eleven p.m. until six a.m. in
9 the morning they become a warehouse store, from six
10 a.m. until other times a different price, and on
11 Saturdays eight a.m. until two in the afternoon, it's
12 prime shopping time.

12

13 You know, I don't want to deliver
14 this bad message and don't anybody shoot me up here
15 because of this, but it actually is a fact that as we
16 begin to look at stores and have traditionally had
17 regular products, we are seeing their focus change to
18 their information resources. And this is becoming the
19 digital strategy of these companies.

19

20 It's very interesting, as you look
21 at this particular piece, because it's a shift in the
22 value proposition occurring. And the shift looks
23 something like this.

23

24 When you open a new product or you
25 start a new service - and I don't care if you're with
a consulting firm or you have your accounting practice

2 as a service - what is unique, very unique, it's
3 basically price insensitive. You can basically charge
4 whatever you want.

5 And as time goes on, as the product
6 becomes more and more monetized, if you will,
7 obviously the value drops.

8 And in almost every one of our
9 corporations and organizations that's what we see
10 happening today with our products. We continually try
11 to reengineer the cost product to bring it to a
12 commodity level.

13 But the fact of the matter is the
14 part that's going to revive that pricing structure is
15 the service which will bracket the value back up into
16 the neat categories. And that's what everyone is
17 trying to capture.

18 Services functions are driven by
19 information technology. And when we try it that way,
20 we have to begin to plan for as a real strategy of the
21 organization, not some secondary component of a
22 corporate information technology plan.

23 So I would ask you very, very hard
24 to look at your organizations and look at this
25 particular organization to begin believing what is a

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digital strategy.

In doing so you will also find that there is a huge change in scale, scope and distribution issues. You know, we have a tag on this organization, which is the American Institute. But as soon as you hit the Net, you are a world institute.

Now, you can still define it. You can still argue it that way. But the fact of the matter is you are global, your Internet presence is global, and every other organization in the world now has access to you.

The question you're going to be asking and wrestling with is how do we represent ourselves that way; in a sense can we help and unite a totally different way of looking at our profession worldwide because the fact of the matter is once we're out, it doesn't make any difference.

So I ask again as we go through this to think very hard and seriously about digital strategy.

The second one, an imperative that is very new and one that we are going to see become I think one of the formidable drivers and one which you're going to have probably "the" most influence

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around is the area of digital cash.

Now, some of the premises here that you use to look at digital cash is that if you think of money as just information, you'll get the concept.

If you take a dollar bill out of your pocket and start to look at it, what you will see is all it is it's backed by the U. S. government, if you happen to be U. S. citizen, and it says the denomination.

If you can do that, then you can begin to do all kinds of things with it such as you can expire it at a certain time of day. So if you are writing petty cash at five o'clock, the money can expire and at eight a.m. the money can reevaluate itself.

The phone companies have a lot of interest in this because as we see ATM banking start to deploy, if they can move the money process to these smart cards or these chip-based cards, you'll find your telephone becoming an individual home banking unit because you can put it in the phone, you can type in your account and do exactly like you do at a regular ATM.

So as you begin to see money as just

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information, it also changes the idea of whose information we are going to trust.

Right now Visa and MasterCard have all of our trust. I'll just use those as two examples. American Express and others are certainly part of that.

But that's not legal tender. That is not legal tender. It is a brand name that has promised to pay back the merchant in a reasonable period of time funded by a number of banks. That's all it is.

And we are beginning to see banks now issue their own cards which have their own branding on it which have no Visa or MasterCard. And all they are saying is we promise to pay you, the merchant, back.

The development of private script is going to be a very important change which I believe is going to require a lot of auditing and a lot of components from your organization because when Microsoft decides to issue its backed money, the reason they do that is they can discount products, and they can discount affiliated products, where you can't do that with strictly the physical dollar bill.

It's a very fascinating change and

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there are many organizations right now pondering this.

The Citibanks, in particular, are starting to say, now, why is it that we pay Visa to do this research, to create this card, to charge us so we can pay them again, when we have as good a brand name out in the market as they do.

So this reevaluation is occurring.

Now, what's important is, it's all reoccurring in the concept of small transactions because if you stop and think, go up here to the JW Gift Shop and go buy a -- well, here at JW you might not find anything under \$5, but go to some other place where you buy some Tic Tacs and use a VisaCard to do that.

First of all, they might take it. Visa, legally, it can be done, but the fact of the matter is the cost of infrastructure does not allow that to really happen. So that's why you see this "Under \$5 we don't accept," because the fact is it's a private network, it runs, it requires certain cost structures, et cetera, to do that.

And now, when I've met with chairmen, one of the primary process focuses that is starting to come up is what is the cost of the

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transaction because we are starting to really get concerned about this.

When you look at Visa and then the \$5 component and you begin to look at other pieces of a transaction, the slate becomes importantly clear of why you all will be involved in this issue.

Let's just take a simple stock trade. You took a thousand shares of stock at \$20 a share and went to trade those now. If you went to a full service broker, you're going to pay about \$400 for that trade.

If you got to Schwab, the bricks and mortar building, it costs you about \$144 to make that trade.

Now, remember five years ago no self-respecting investor would ever go to Schwab. Okay? If you can't afford to play with the big guys, you know, you shouldn't be investing type thing.

I know many of us -- I'm the same way, I was in there -- okay? -- but now I go.

Now, second part is Schwab On-Line comes on. And it's \$29 a transaction on-line.

And you can continue the scenario on down through a whole number of on-line trade services

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down to -- I think one of the lowest ones certainly is one called E-trade. And it's \$9.99.

Now, when you step back and say, all right, I can either pay \$9.99 or \$400 to accomplish the same thing, most of us in this room are going to pay \$400.

(Laughter.)

DR. RICHARD SCHROTH: We are not in the next transition yet.

But the next group coming, the Beanie Baby group, isn't even going to think about it. Not even going to think about it!

And at least they gather the research is good. You know, I can log on to almost half-a-dozen research services right now and find out almost identically the same kind of information.

I am paying for my ignorance at this point. Okay? And it's very costly. And it's going to get more costly as we go along.

But the next generation, when you start to talk about transitions under \$5.00, when you get into microtransactions, you begin to see a whole different set of competitors coming on that are even going to challenge these numbers.

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So you see First Virtual. Now, you may or may not even agree with their models, but on the Net First Virtual is one of the first banking groups that came along. Their current pricing structure for a transaction is \$.29 plus two percent of the goods sold. So they have a way of actually taxing the goods that are transacted on the Net.

There is another group, does the same thing, which is - I think it's Net Bill, the Carnegie Mellon Company. And their transaction now is around \$.27 with a minimum of a \$1 purchase.

And if you take this to the extreme, to chart these all out -- if we had a lot of time, we could go through this -- but to chart all of these out, what you'll find is that right now one of the most significant competitors that's coming out -- in fact, it's just launched a major transaction work this month in Germany -- is a digital computer startup company called Millicent, M-i-l-l-i-c-e-n-t, out of Silicon Valley and is claiming right now that it can do a transaction for 1/10th of a cent with a one cent minimum, 1/10th of a cent with a one cent minimum.

Now, I go to my stock trade.

If you are trading information and

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it's costing you \$400, or it's one/tenth of a cent,
even I will make that shift, trust me. Even I will.

(Laughter.)

DR. RICHARD SCHROTH: Now, I will
ask you to pay very close attention to this because
these digital assets, which can be financial, but can
be other kind of digital assets, can be equally as
important.

For instance, I can see the day
where someone is going to certify my copyright, that's
going to certify my intellectual property, because
it's just as important to me, because it is a
microtransaction when it occurs, and your organization
has a tremendous opportunity to begin branching into
these new areas of recertification of totally
different assets that you've never dealt with. You've
dealt predominantly with that financial asset.

What I want you to be thinking about
is that the knowledge asset is as equally important -
- and there is a way of quantify it -- especially with
the advent of digital cash coming around.

So, again, in your visioning session
think about the fact that digital cash is coming very
quickly, the transactional cost is going to be so low

2 that new ways of doing this business clearly are on
3 our horizon, and a certification of micro-level
4 business is totally new.

5 The third imperative that I would
6 ask you to pay attention to is around building
7 technology immediate relationships.

8 One of the very important things
9 that we are doing very incorrectly these days is we
10 are throwing away many of our relationships in lieu of
11 efficiencies, especially personal relationships.

12 When you start to get down to
13 transactions of one-tenth of a cent, it's
14 predominantly between machines doing this, not between
15 people.

16 The transaction at the \$400 level is
17 between people.

18 And so in our quest to be efficient,
19 I want to just make sure that as certified people who
20 are helping individuals understand, one of the goals
21 that you must have is to help individuals understand
22 that the relationship is equally as important as the
23 efficiency of the transaction.

24 In many organizations it's the
25 imperative for them to do business.

2 Now, around this area we do not
3 understand -- in fact, the body of research around
4 this is almost nil -- about what our brand means in
5 cyberspace.

6 Now, I use the word "cyber." Okay?
7 For many of you that is a "no, no" vocabulary word.
8 Okay? Rich will be seen as a technology goofball up
9 here talking about cyberspace. Okay? But we got to get
10 through it so I'm going to use it here.

11 The fact is brand, your brand, plays
12 a very important role.

13 Some work again with the Volvo
14 Corporation, just to give you an example of brand, is
15 around certification, just like you would do, of used
16 cars. Because Volvo's name stands for safety in almost
17 everyone's mind, a Volvo-certified car clearly carries
18 with it a much different okay than the Dean or Drew
19 Auto Sales certified car, which we don't know anything
20 about.

21 And you begin to understand your
22 titles, even the title CPA carries with it an
23 international acknowledgement that there is a
24 professional organization certifying these things.

25 And on the Net this is going to

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become a very important factor. Many of you actually will find an entirely new business in this area which will be the certification of things in order to provide at least some basis for determining is this stuff okay to use or not.

But the relationships are very important.

I have an organization and I want to tell you a quick story about. And it's a large, very large retail -- in fact, it's the largest retail chain in the United States. I had a very poor buying experience there one day.

And as I was standing in this line for forty minutes with kids screaming and kicking at me and throwing things and everything else, two cash registers open, with a crowd of maybe ninety in front of me, and the sign staring me in face that said, "We exceed our customer's expectations" for forty minutes. It certainly didn't exceed mine.

At the end of that I wrote a complaint letter. And I gave it to the general manager of the store and said, "You aren't going to like this." And I said, "but I'm going to give it to you anyway."

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And so I took the letter and put it in the box and I said, "If you want to tear it up, it's fine, because I'm going to go home and write a letter to you on the web. Okay? And I'm going to complain because I know you have a web site.

So I went home, sophisticated user that I am, and got on the web and found the site.

And at the bottom it said direct comments to the web master.

Well, I knew I was in trouble here because this is the techi weenie. Okay? Because web masters are not known to convey my concerns to anybody. Okay?

So I click on the web master page. And up comes this very generic E-mail response. Okay? Nothing customized, nothing to let me know that it's really them I'm even dealing with.

So I type my E-mail and I type my complaint in and I send this thing.

Three days later I got back an E-mail response. Now, in E-mail time, by the way, that's like not responding. I actually waited to see if I would get a response while I was sitting there. I mean that's my anticipation of what was going to happen.

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Okay. It did not occur. But, you know, I actually didn't think it might, but I thought maybe an hour or two later it would.

Okay.

I get this response back. It says "Dear" -- and the first page of it, by the way, I don't think anybody ever looked at. And I'm going to find the Chairman of this organization one of these days and they're going to go "Oh, no, don't tell that story again."

The first page of the letter that came for me was nothing but telephone routing information, what switch it had been through. There is not a word of English on this thing other than it said "From the President" -- okay? -- at the very top.

At least the second page, it said, "Dear Sir: We cannot respond properly to your letter because you did not include one of the following pieces of information: your name, address, phone number..." -- I'm going, excuse me, I just sent you an E-mail, why do you need my name, address and phone number. You just communicated back to me and told me you can't communicate with me.

(Laughter.)

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DR. RICHARD SCHROTH: Now, we got a big gap in this company to understand this. They wouldn't do this if they understood this stuff -- okay? -- but they don't understand.

So it goes on and says, "We are a big company and most of our users don't use E-mail." Then why provide me the opportunity to send it to you if you don't use it.

So this thing goes on. It's just a terrible, terrible letter you can imagine.

And so I let it pass. And about a week goes by. And I get this next phone call from this large retail group that says, live, Mr. Schroth, we are trying to reach you. We greatly apologize. We recognize you have this letter -- I did send them back my phone number, by the way, just to see what would happen -- and we want to talk with you.

Well, you know, I'm not about to give them the time of day at this point. So I go on.

And about three weeks later I get a \$25 gift certificate in the mail. It says thank you for talking with us.

So I sent about twenty more complaint letters.

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(Laughter.)

DR. RICHARD SCHROTH: And I would encourage all of you to cash in on it too.

(Laughter.)

DR. RICHARD SCHROTH: This is the part about the technology relationship that we keep losing.

We have a jelly company in this country that I met with two brothers on. And they did not have a web site, nor were they too astute about it but knew they had to. And they said, "Rich, would you help us understand this."

So we got on the web site and we looked up the word "jelly." Ninety-eight percent pornographic responses.

We don't yet understand the technology and relationship.

Another imperative: leveraging the best.

As I mentioned to you, one of the big changes we are going to see in our organizations here over the next few years is to really understand that we've got superstars coming in and they've got no time nor patience to wait because the world is moving

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at a very different pace for them then it is for you and me.

These individuals, by the way, are going to be looking for new forms of the organization to work in. They may work for more than one company in the future. In fact, right now I'm doing a model of that myself for I actually work for four or five companies basically on retainer, but I'm at their staff meetings and I'm with them all the time, again not in a consulting way.

But I'm also out doing things I like to do.

And there are more and more people you are going to find who are going to want that kind of lifestyle status. Leveraging the best is very important.

I'll tell you where it's going to begin. It's beginning right now I see with positions, particularly radiologists, who are looking forward right now to the time they can begin to read their MRI scans and other things at their homes and use for business.

The very interesting thing though about this phenomenon is the way, again, our

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regulatory roles have played. You will have this opportunity in your discussions to talk about these kinds of regulatory issues.

As the physicians try to do telemedicine within the state, from one doctor to another, it's certainly allowed.

Now, let me just ask you the question. Would you like to be treated by a doctor somewhere else on a video screen?

You know, not on my life they don't.

Okay?

But if I have the primary physician with me and they want to bring in a specialist, that's cool. In fact, that is advanced. I like that idea.

That's a very powerful analogy to begin to learn leveraging the best.

And as your organizations begin to understand your whole Institute's role, you may have some roles from your best people to have that same kind of impact on some of the best clients that you may have.

If one-on-one presence is good, but you bring the specialist in via teleconference, it's even better.

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The interesting things about the laws, they will allow you as a doctor from one doctor to another on a videoconference within the state. They will not allow you, unless you're a licensed telemedicine practitioner, to go from state to state.

And if you really understand why, they basically say we are trying to keep the quacks out. Now, please tell me which state has the original doctors and I will go there.

The fact is those same docs, however, can practice internationally on a videoconference link. They can skip over.

And if you don't think digital assets are powerful, let me ask you this question. If you've been at a doctor and they've called another physician up on a phone line in a different state and talked with them, that has been legal for many years without being licensed to do.

If you've been at a doctor and they fax another doctor in another state over that same identical phone line, that has been legal for many years.

But now you introduce the visual bit on the same phone line and we now regulate it.

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2 There is something special when
3 human beings see other human beings that causes
4 leverage to occur. And we are beginning to understand
5 more and more as we look at organizations that the
6 special people who can tolerate and really move to
7 this technology have new roles to evolve.

8 And I would strongly encourage again
9 your association here to really look at how to
10 leverage your best and brightest, as many
11 opportunities you can, without causing damage to their
12 careers or to any of the organizations where they may
13 come from.

14 Another imperative, imperative #4 -
15 - and I'll go fairly quickly at this point because I
16 want to watch my time -- is directing your business to
17 real-time operations.

18 The importance of this particular
19 imperative is to understand not to set our goals so
20 close that we can't change with the pace of
21 technology.

22 If you can envision your auditing or
23 accounting practices operating in real time,
24 everything in real time, you can begin to see many of
25 the components and changes that will have to occur. It

2 is not going to occur overnight. For many of you it
3 will never reach that point.

4 But I would strongly suggest if you
5 can put that stake in the ground, you can begin to see
6 the distance that will have to be travelled and some
7 of the elements that will take you there.

8 And those become guidelines and site
9 points for the future.

10 Another imperative that clearly
11 becomes an important part of your work is to recognize
12 the rise of cyber law. Most corporations right now do
13 not have specialists in law around these governing
14 issues of networks and finances.

15 We simply do not know what to do. We
16 do not know where the point of presence is. Back to
17 the telemedicine example, we do not know where
18 medicine is practiced on videomedicine, whether it's
19 practiced where the patient sits or where the decision
20 is made. It's a very confusing issue.

21 And the same holds true with many of
22 the financial transactions that are occurring and we
23 actually do not know the locations. And in a network
24 world, as you read and heard about, many of these
25 transactions can occur in the strangest of places with

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the strangest of law. We still don't understand.

The best I've been able to get out of the Federal government on this is the second bullet point here which says "law responds to failure, not to success."

And I think that's actually a pretty good guideline to think about because if it does, then we are actually opening ourselves that your industry may find other certification people coming in who will certify the electronic world and leave you continually with your financial world.

The Microsoft and others who have the credibility in the electronic world also have the brand to certify.

And this is where it's very important for your organization to begin to determine are these really important to you because law may not protect this. Success will actually drive this forward.

And your choice is where you will play, not if you'll play and then you can destroy it.

This is a very, very critical area for you to work with.

Security is another area that is of

1
2 great concern and another area again of which I
3 believe lends itself to your certification processes
4 in many cases.

5 I'm finding too many organizations
6 right now are trying to secure so many things that
7 they can't function. And in many cases they build,
8 quote, firewalls, inside of organizations. But what
9 they don't understand is that something like ninety-
10 five percent of the fraud and abuse of networks or the
11 information on networks is actually incurring inside
12 the company, not outside.

13 The sensationalism of the one-time
14 striker from Holland that breaks into the system is
15 certainly there and it will always be there.

16 But just try and release your top
17 technology communications specialist with a bad
18 attitude. Trust me, your security problems just
19 started. Just started!

20 And so I would again caution and I
21 would also encourage you to look at security as
22 another role that bridges your financial capabilities
23 to certify and begin to understand that these roles
24 may actually improve to new areas.

25 And I mentioned before,

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visualization is very important. And as we look at imperatives for the future, we are finding that combining content and context is critically important.

And many of our big database systems and such now are producing new ways of looking at materials, particularly visually, that we've never seen before, opening up many, many existing new marketing opportunities.

But, again, we have no way to actually certify some of the financials and processes involved in this.

And depending upon the scope that you want to take, you may find that that's an area that you need to go to.

The redefinition of alliances and partnerships is the ninth imperative. And what I mean by this is that many organizations these days are choosing their relationships and alliances based on the fact of the relationships and alliances their partners have. It's not a singular relationship.

And so as you develop your strategies in your Institute, your relationships and alliances, your strategy partners that you will choose to participate with, will filter down to many others

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2 who will then see that power that you develop inside
3 that part of your strategy.

4 So I strongly encourage you not to
5 look just at yours but go very much deeper into the
6 alliances and partnerships that you have the
7 opportunity to establish these days because that can
8 carry your brand name and brand power much further.

9 And, finally, and I just again want
10 to reemphasize, please plan for the effects of the
11 consumer electronics industry. The wiring of light
12 bulbs, refrigerators and other kinds of things is
13 clearly on our horizon.

14 And we don't know a lot about this
15 but your vision is the year 2000. And as I said to you
16 before, if you use a basic 10, in eighteen months it's
17 a hundred and 10,000 by the year your plan starts to
18 take effect.

19 And so as we start, the consumers
20 electronics industry becomes more sophisticated in
21 their knowledge and use, I would strongly encourage
22 you to look at this.

23 The main point I was trying to make
24 today is that business is and it must develop a
25 strategy and a behavioral model, not just a strategy -

2 it's a way of behaving - that recognizes that this
3 accelerating pace of technology change is in every
4 aspect of the organization, from the way people
5 function to the way they think, to the way the
6 strategy is developed, to the way they finance
7 themselves.

8 And so you should unturn every
9 possibility as you go through the visioning process
10 and leave no stone unturned because it is now in every
11 aspect of our company. We will see these needs for the
12 types of certifications and interest that your
13 organization has.

14 So just to recoup, this is a list of
15 the generation kind of new imperatives.

16 Your packets will have, if not now,
17 they will have copies of these in here as you go into
18 your planning sessions.

19 And I thank you very much for
20 sharing your Sunday afternoon with me here in the
21 beautiful sunny city of Washington today. I assume
22 it's not raining outside.

23 And thank you very much for the time
24 you have given me today.

25 (Applause.)

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CHAIRMAN MEDNICK: Thank you, Rich,
for a very interesting and informative presentation.

I think you have made clear to all
of us that information and knowledge is what drives
competitive advantage and that we, with the
opportunity to be in the lead of the information
business, obviously we have a very, very good future
in store if we take the opportunity that is at our
doorsteps.

That is a perfect sequay to Jeannie
Patton, our Project Director and the Executive
Director of the Utah Association of CPAs.

As you will soon see, Jeannie has
been working on a fast track basis and has gotten the
visioning initiative off to an excellent start.

Jeannie, the podium is yours.

DR. RICHARD SCHROTH: If you'll
forgive me one second, I'll give her the podium.

(Laughter.)

MS. JEANNIE PATTON: The challenges
of technology.

Some of you noticed that right after
that we had three laptops up here to take care of
three presentations.

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I have to say I am enormously excited about the potential that the CPA Vision Project brings to this profession.

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Personally, I've got something on the order of sixteen years invested in the profession and the CPAs that I watched come in as beginning staff have moved up now into managing partner level.

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In your packets you will find a couple of pieces of information that are related to the Vision Project.

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One is a brochure that briefly describes what the Vision Project's process is, what our intent is.

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The second piece is this Netcon Complete. And the reason that you have this in your packet is that one of the major communication efforts of the Vision Project will be undertaken through the use of a web site. And to the extent that you may have avoided this up to this point, I am hoping that we will encourage you to experiment with the web and the Internet as the project progresses.

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One of the things I have to say, I have to come to a new understanding about, is how critical a vision is in our own personal lives and

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2 certainly in our professional life.

3 Two months ago, I was asked to
4 undertake this project and there was a great deal of
5 discomfort in my life as I tried to come to my own
6 vision about what it meant to create a vision for a
7 profession.

8 And between moments of complete
9 panic and wondering about my sanity, I recognized that
10 I inherently, as all of you do, have a vision for who
11 it is that I am and what it is that I do to make a
12 living, what it is that I do with my friends and
13 family.

14 And the pace of our lives has
15 increased to the point where we no longer have the
16 luxury of oftentimes sitting back and saying is this
17 where I want to be. We often find ourselves in
18 situations that make us recognize maybe this isn't
19 where I want to be and not really sure how we got
20 there.

21 And so the vision process and the
22 vision project is an opportunity for the profession
23 itself to take a fresh breath, to sit back and imagine
24 the place we want to find ourselves in five to ten
25 years.

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The vision project -- the lights are so bright I can't see.

What is a vision?

And to carry on with Dr. Richard Schroth's thought, as I was exploring on the Internet looking for some other information recently, this definition came to my attention.

A vision is an image and not just an idea of an attractive and compelling future state, unique to a group or organization or profession that gives meaning to effort and motivates people to work together in the turmoil of a changing world.

And I would say that certainly defines the place where we find ourselves today.

The tag line for the CPA Vision Project is Focus on the Horizon, and that is just what the Vision Project is.

The implication is that we are not looking where we are today. We are looking as far as we can see ahead. And in examining what we see ahead, we are then able to begin to plan a strategy for how we will get to where we want to be.

The objectives of the process are: with grassroots input from CPAs across the nation and

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support from organizations that act on their behalf,
the CPA Vision Project will create a comprehensive and
integrated vision of the profession's future that
will, among other things:

Build awareness of future
opportunities and challenges for all segments of the
profession;

Lead the profession as it navigates
the changing demands of the marketplace;

Draw together the profession to
create a vibrant and viable future;

Leverage the CPA's core competencies
and values; --

And I have to say that over the last
several months I've had the opportunity to really
think seriously about the position that the profession
is. And as I thought through that, I don't believe I
have seen any other profession that has as many
inherent abilities, core competencies, integrity and
objectivity and competency, upon which we can leverage
into the future.

-- guide current and future
initiatives in support of the profession and the
protection of the public interest.

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We also intend to engage the profession in a shared, jointly created and individually owned future. And that is just what it implies. If CPAs and members of this organization and State Societies do not see themselves in the image that we create, much of the effort that is put into the Vision Project will be wasted.

There are many processes here. I'm going to give you a brief outline. We will go into some in more detail so that you can understand how we intend to expose the Vision Project to the entire profession.

The first, and one of the most important, is the engagement process.

Obviously, Council will play a major role in the vision process as we move along.

We will also be asking professional leaders and State Societies to join us in this truly unique opportunity to take a look at where the profession wants to be.

And other groups identified for outreach to become what we will call strategic partners in this vision process.

There is also the facilitation

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process. We will identify a principal consultant, a market research consultant, Future Forum facilitators and a communication specialist, all working over the next eighteen months to help us produce this dynamic vision.

The communication process in my opinion is the most critical part of this vision process. There is a lot of information out there about the future, but if we do not communicate to the entire audience and population the opportunities that are out there before the profession, we will have missed the advantage of this process.

We also will be undertaking a research, market research, from the users of CPA services, CPAs themselves, and students to capture a broad perspective of the profession.

We also will be undertaking what we are now calling Future Forum Processes. Previously these were known as Town Halls. This will be undertaken from late September to December 15th of this year. We expect to conduct about a hundred and thirty Future Forums in all fifty states.

We will also have what we are calling Ad Hoc Forums at the option of strategic

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partners such as State Societies that will follow the formal process but will allow the process to be carried further into the population of the profession.

This portion will culminate in a National Future Forum in January of 1998 where member delegates from each state will gather together to create the Vision Draft Statement.

Another critical part of this process is what we are calling the value and involvement process.

Obviously, that includes Council, leadership groups and State Societies. It also includes an outreach to the full spectrum of the CPA profession. And it is just the beginning of the organizational alignment and integration into the strategy process of the profession.

Let's take a look at each one of these in a little more detail.

The facilitation process will require the best resources that we can bring to bear that we can ensure meaningful and lasting success in this process. RFPs are currently being evaluated for a principal consultant to be engaged to assure the process quality and integrity.

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And I have to say I think you will be very pleased in the next thirty days to be introduced to a very unique individual who I believe will bring a truly international/global perspective to the vision process.

The market research consultant will also provide a solid and valid database for the project beyond the interim market research that will be conducted by the AICPA's project team.

We will also have a facilitator trainer who will structure the Future Forums and train the professional facilitators who are conducting the grassroots Future Forums. The Future Forums facilitators themselves will conduct the forums and assemble and compile the data into a usable and standard format.

The Ad Hoc Forum Facilitators will be trained by the professional facilitator and those will be made available from the State Societies and other strategic partners who may opt to conduct additional Future Forums to expand the process.

The Leadership Forum Facilitators will also be trained and they will be available to AICPA executive leadership groups and selected

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committees.

We expect that the project's structure will look something like this with input from the leadership including Council and the Board of Directors, and under my direction as Project Director with the assistance of the team leader, Leigh Knopf, and the AICPA's internal project team.

We will engage strategic partners such as the CPA-SEA Task Force, State Societies and other groups that we identify.

We will correlate the activities of the facilitation team including the principal consultant, the Future Forum consultant and the market research consultant and apply additional resources such as the full-time communications person who will be brought on board within the next month.

Content advisers and others that we determine are necessary.

The search process will include several aspects. It will consist of:

Interim market research conducted by the AICPA's internal team;

The external market research including focus groups.

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We will be conducting five groups of CPAs under 35 by segment. Two of these have already been conducted, one of industry members in San Francisco and one of public private members in Atlanta in the last three weeks.

You will see portions of these in the video which will follow shortly.

We will also conduct focus groups of CPAs 36 to 45 by segment.

And users of public services and industry CPA services, four of those.

And two student groups: one, obviously, students directed at a path that leads to CPA, and another of students who have selected alternative paths of education such as MBAs.

Another major piece of the research process will be the External Advisory Council. There will be six team members of the External Advisory Council. And they include a State Board of Accountancy member, a SEC Commissioner, a Comptroller of the Currency and government leader, head of stock exchange, a futurist, two leaders in the financial services industry, three Fortune 500 CEOs, CFOs or CIOs, two small business leaders, a business school

2 professor, a university president and chancellor, a
3 member of the U. S. Congress as well as a state
4 legislator.

5 Now, we intend to use those
6 resources, that external perspective, from that
7 knowledgeable population in a variety of ways. But we
8 will begin with a one-to-one-and-a-half hour interview
9 with these individuals and we will promote then their
10 insights throughout the project.

11 They will be asked -- we will create
12 a summary document of those interviews and they will
13 be asked to review that, as well as a statement of
14 direction and a draft vision document to make sure
15 that we remain on target with all of our audiences.

16 They will also be invited to attend
17 the Fall 1998 Council meeting.

18 The Vision drafting process, so you
19 will understand how the Vision will come together,
20 we'll take all of the input from focus groups, from
21 Council, forums and market research to create the
22 Vision.

23 We will begin with summarizing those
24 to create a working hypothesis for the statement of
25 direction. That will take place from the summer

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through December of 1997. It will be the responsibility of the communications specialist and the project facilitation team working with the writer assigned to the project.

After the National Future Forum, a draft statement of direction will be prepared along with a draft preliminary report.

That report and draft statement will be tested through the Future Forum delegates, the External Advisory Council, and Regional Council meetings which will be in May -- or March, excuse me, of 1998.

At the May 1998 Council meeting, we will refine that statement of direction after which the Vision Report will be put into finished form for exposure to strategic partners.

The final Vision document will be exposed to strategic partners for endorsement in the summer of 1998 and will conclude with asking Council to approve and adopt the final Vision Report at the October meeting in 1998, after which it will be distributed to the profession on a wide basis.

The value and involvement phase.

Obviously, Council will be a major

1
2 roleplayer in this process. That will include
3 communication, ongoing and regular, in a variety of
4 forums. One of the primary forums to stay most current
5 and up-to-date will be through a web site,
6 <http://wwwcpavision.org>.

7 And some of you may ask why don't
8 you put it on the Institute's web site. Well, I'll
9 answer that right now.

10 The issue is that this is a
11 profession-wide vision and the Institute has taken
12 great pains to help me invite a large population into
13 the dialogue and discussion as it relates to the
14 Vision Project.

15 We will also be providing regular
16 leadership updates to the Council in between the
17 Council meetings already planned.

18 We will also be asking the
19 designated Council Members to be observers at the
20 Future Forums in their states of residence. We feel
21 like it's important for you to have an opportunity to
22 hear the voices in your own state express their
23 concerns about the future of the profession.

24 And in the fall of 1997, one of the
25 major portions of the Council will be a Future Forum

1
2 strictly for Council Members.

3 The Regional Councils in March of
4 1998 will give you an opportunity to look at the draft
5 statement of direction and the May Council in May of
6 1998 will also give you an opportunity to take a look
7 at the draft Vision Statement before it is finalized.
8 And at the October meeting we will ask you to approve
9 the Statement and the research report.

10 In addition to Council's
11 involvement, it is important that we do an
12 informational update and outreach to leadership
13 groups.

14 To give you a flavor for what we
15 have already undertaken, we are on the Beta Alpha Psi
16 program in a special session designed for chapter
17 presidents at their national conference in August to
18 encourage them and to encourage their members to be
19 aware of the Vision Project and to give us input via
20 the web and other resources.

21 But we are also working with Beta
22 Alpha Psi to see if we can encourage interest in their
23 major research paper being focused on the future of
24 the profession.

25 We will also be:

1
2 At the State Societies Planning
3 Conference in October of 1997 to begin to introduce
4 the concepts of alignment to a future vision;

5 The AICPA's Committee leadership in
6 November of 1997;

7 The AICPA's staff retreat also in
8 that same month;

9 The CPA-SEA mid-winter meeting in
10 January of 1988, which will follow immediately upon
11 the heels of a National Future Forum; and

12 The AICPA Board of Directors in
13 February of 1998;

14 And other professional organizations
15 and opportunities yet to be scheduled.

16 We also feel like it is essential
17 that we have an outreach to the profession. That would
18 include newsletter articles that will be made
19 available to all strategic partners for publication in
20 their newsletters.

21 It will include a lending library
22 for multimedia resources that will be available to
23 those strategic partners for their members.

24 Future public discussion guides and
25 materials will be developed for one and two-hour

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formats suitable for chapters, committees and other small discussion groups to encourage dialogue on the issues of the future.

The web site, which we will promote through the AICPA and State Society newsletters and other publications.

And there is a potential here for CPE promotions identifying future focus skill programs before the completion of the Vision Project as well as after it.

Ad Hoc Future Forums conducted by our strategic partners at their option.

We feel like the vision process really is a process, and at the conclusion of the project it must create a living process that feeds the planning process and provides constant renewal.

As a part of that, we are recommending a new National Professional Strategy Conference in the fall of 1998 after Council has adopted the final report.

We are recommending that the member co-facilitator delegate - there will be one from every State - be moved into leadership of strategy committees to take the profession from the "see"

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phase, which the Vision is, to the "do" phase which is the planning process and the strategy process.

This will be the charge of the AICPA Strategic Planning Committee.

We are also recommending that the State Societies Planning Conference reflect the need for a shared vision among all the organizations serving the profession and we ask that they are considering inviting other organizational leaders, such as Beta Alpha Psi, AAA, NABA and others, so that the profession can consider the issues together and hear each other's voices.

The deliverables and the outcome for a project of this size obviously include a Vision Report. The report itself will be consistent with the vision but we will also be developing segment views of what that vision may mean to CPAs in industry, in education, government, small firms and so on.

There will be a research report. Many communications: so far we know there will be a web site, multimedia resources, videos, discussion guides and much more material.

We anticipate identifying meaningful products and services that will be needed by members

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to meet this future.

We expect that it will create a guidepost with a media campaign to promote the profession of the future, a profession that is then aware of what the future opportunities and challenges are, a road map from which the profession can navigate the anticipated demands of the future and the marketplace, a profession that is drawn towards a unified vision of the future.

Outcomes?

We believe there will be a fresh perspective for applying CPA's core competencies in the demands of the future;

Guidance for membership organizations on future-focused strategic initiatives;

A process to bring thought leaders and change agents into the planning processes and strategy processes of the professional organizations that are serving our profession, and that includes items like the member co-facilitator delegate.

So what's next on our schedule?

I can promise you by May 30th you will receive a video introduction of the project itself and the professional consultants who will be

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applied to the project.

You will also receive an opportunity to let us know how you want to be updated on the ongoing process of the project: electronic, fax or E-mail.

By September 1st we expect the completion of the major market research components and the beginning of the Future Forums.

Fall Council of 1997 will be our opportunity then to report back to you on some of this research and to conduct a Future Forum together of Council's viewpoints on the future.

So what do we need from you?

I can't express to you how critical it is that you take this opportunity to exhibit leadership towards the entire profession, to engage them in a dialogue to create awareness for the future of this profession which includes co-creating a positive, vital and viable professional future, understanding the forces at work that are shaping this future, and addressing the needs of the profession of the future.

I obviously can apply as many resources that I have at my hand, but this becomes

2 real to people only when they are engaged in dialogue.
3 And we have a unique opportunity within this
4 profession to undertake that dialogue together.

5 Thank you very much.

6 And we will now take a few moments
7 to view the video that will introduce the Vision
8 Project.

9 Within this video are clips from two
10 focus groups, the Industry under 35 group, that was in
11 San Francisco, and the CPAs in Public Practice under
12 35 in Atlanta conducted about two weeks ago.

13 In addition, you will get a flavor
14 for some of the remarks that have come from the
15 External Advisory Council. And I invite you to turn
16 your attention to a Focus on the Horizon.

17 (Applause.)

18 (A video was viewed by all
19 assembled.)

20 CHAIRMAN MEDNICK: We thank you for
21 an outstanding presentation, but even more for the
22 energy and enthusiasm you bring to this project.

23 You speak faster than I do and I
24 don't know many people who do that.

25 It really is an excellent kickoff

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and I want to give one more hand of applause to Jeannie.

(Applause.)

CHAIRMAN MEDNICK: As Jeannie suggested, as members of our governing body, as leaders of this profession, I encourage all of you, all of us, to get involved. That is what will make it successful going forward.

I'm going to move now, and it looks like we have picked up ten minutes, and that's surprising, but I'm going to move now to our first Open Forum.

And I am going to ask anybody who would like to make a comment, observation, ask a question, whatever's on your mind, this would be the opportunity for you to get up and do so.

And as Jeannie said and I've been saying before, I can't see you out there. When someone gets to a microphone, please identify yourself and the State you are from and we would love to hear from you.

COUNCIL MEMBER S. THOMAS CLEVELAND:
I see what you're talking about.

CHAIRMAN MEDNICK: It's very hard.

COUNCIL MEMBER S. THOMAS CLEVELAND:

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Tom Cleveland from California.

I strongly support the Vision process and I'm really amazed how far you've come in just a few weeks.

I have three quick questions about your presentation. It's really methodology.

One is, did you consider a chat group forum? Chat group really is bad terminology, but belonging to two of them I found real value in talking among people who have similar interests and sharing those interests and to use kind of a Delphi method to narrow down a few things.

The second question is, I noticed from one of your slides you have no focus group over 45.

(Laughter.)

COUNCIL MEMBER S. THOMAS CLEVELAND:
Obviously I am. I am not insulted at all, but I was wondering whether you might gain some advantage of finding out how old fogies feel about it.

CHAIRMAN MEDNICK: How about over 55?

COUNCIL MEMBER S. THOMAS CLEVELAND:
Or 55 or 65.

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Your slide though has no forum for over 45 and has two others.

And the third is, Council Members involved, and obviously there is a continuity situation there where the Council is churning over and so forth and how you maintain that.

So three questions: chat group, any focus groups over 45 and how are you taking care of Council continuity.

MS. JEANNIE PATTON: We'll start with the chat group.

One of my passions, for those of you that know me, is the Internet. And we intend to employ every tool we can find on the Internet. Really, it's the reason I asked them to make sure that this was distributed at this point.

There will be chat groups. We will be starting, as an example, in a password-protected section for the State Society Coordinators. Every State has a coordinator for the Vision Project already assigned. That person is responsible for the administrative aspects of the Vision Project. So there will be plenty of conversations in the chat groups in the password-protected section by the end of next

2 week.

3 As soon as we are able to bring some
4 more detail behind the rest of the Vision Project, we
5 will open up additional monitor forums for members-
6 at-large.

7 We also anticipate using the web
8 site to begin to collect member input on the Vision.
9 As we develop maybe even some preliminary aspects for
10 the Vision Statement, we will put that on the web and
11 say tell us who you are and tell us what you think.

12 So absolutely we intend for that to
13 be a very dynamic ongoing dialogue.

14 The next question was the age
15 groups, the focus groups.

16 We did discuss that and actually we
17 are relying somewhat on the Council itself because we
18 tend -- and I'm including myself in this -- we tend to
19 be an older, more established, more knowledgeable
20 population.

21 So the forum that we will be
22 conducting in the fall of next year we expect will
23 pretty accurately reflect the senior perspectives of
24 the horizon. Is that tactful?

25 (Laughter.)

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COUNCIL MEMBER S. THOMAS CLEVELAND:

We'll talk about that at the reception.

(Laughter.)

COUNCIL MEMBER S. THOMAS CLEVELAND:

The last question was Council continuity.

MS. JEANNIE PATTON: The Council,
as they transition through?

It will be somewhat of an issue. And
Barry can give me a little more insight as we move
through this process. I'll let Barry sort of discuss
that.

PRESIDENT MELANCON: Tom, you're
right. About one-third of Council turns over and will
turn over in October. And although there will be a lot
of information exchanged, the actual future focus
forum for Council will be at October. And at that
meeting we invite people who will be coming in to
serve the next year as well as the people who are
ending their term at that point. So we will have both
of those groups at that October meeting.

And so that group that is going to
begin their term at that point, you will be the group
that will be voting on it in October of '98. So we
will be achieving that continuity as it relates to

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that focus forum.

MS. JEANNIE PATTON: That's the advantage of having a team.

One more thing. I'm just going to take the advantage of the mike for one second and say that one of the things that struck me, and it came out of the Minority Initiatives' video that is out there, was an analogy, that the profession itself has done an admirable job in running individual races, but we have yet to learn the skill of passing the baton.

And I think that this Vision Project is the opportunity for us to begin to experiment with passing the baton in addition to running our own race.

CHAIRMAN MEDNICK: Thank you, Jeannie.

And, Tom, thanks for your questions. Any other comments, questions, thoughts, ideas?

(No response.)

CHAIRMAN MEDNICK: Okay. We have -- oh, we have someone. I'm sorry.

MS. ANTONIO SMILEY: Antonio Smiley from Washington, D.C., our host jurisdiction.

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2 And I am concerned that, when you
3 were talking about getting input, that's all the fifty
4 states. I'm sure that you are not going to exclude the
5 other jurisdictions.

6 (Laughter.)

7 MS. JEANNIE PATTON: My vocabulary
8 mistake. We intend also to involve not only the
9 District but Guam and the Virgin Islands and Puerto
10 Rico as well. So, yes, absolutely.

11 We also will be, frankly, looking
12 for input from a global community as well as one of
13 the strategic partners.

14 CHAIRMAN MEDNICK: Anybody else?

15 (No response.)

16 CHAIRMAN MEDNICK: Okay.

17 We are a little bit ahead of
18 schedule. And if you will bear with me, I would just
19 like to take a couple of minutes before we break
20 today, particularly considering the fact that we are
21 in the District of Columbia to talk about AICPA
22 Effective Legislation Committee or Political Action
23 Committee, the PAC.

24 Each year, as you know, part of the
25 annual dues statement that every AICPA member gets

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includes a checkoff or a dues checkoff for a contribution to the PAC.

And for the current year just over 100 members of Council and the Board made such a contribution. They are wearing ribbons on their badges for this meeting, although I didn't see a ribbon on mine and I'm sure, Barry, I did make a contribution to the PAC.

In view of the importance of this program, I am going to make a pitch. This is how we position ourselves in Washington. It is our entree, as Senator Pete Domenici, who was so helpful to us in the securities litigation reform, indicated on the video this morning.

So I would encourage all of you, whether or not you've made contributions in the past, to do so this coming year.

We are the leadership of the Institute. We do set the example for the rest of our membership.

Moreover, the advocacy role of the Institute on behalf of its members is extremely important and it does deserve the support of each and every one of us.

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2 So when you receive your dues
3 statement, as you will next month, please use the
4 checkoff and give as generously as you can to the PAC
5 in support of our efforts here in Washington.

6 This will conclude our session for
7 today. I hope you will agree it was a good kickoff to
8 our program and an exciting day.

9 I thank you all very much for your
10 attention and participation.

11 I look forward to seeing you at the
12 reception and the dinner. We do have a special speaker
13 after dinner.

14 The reception will begin at 6:30.
15 And, again, for those of you of Council who have not
16 yet had the opportunity to sign up or arrange a Hill
17 visit, please look for Gila Bronner who tells me that
18 she will be very pleased to do so.

19 We start tomorrow again at 8:30,
20 same location. The full day will be devoted to the Key
21 Person Program which I think you will find will be
22 very exciting for all of you.

23 Gila will chair the entire day
24 tomorrow after some introductory remarks on my part.

25 And it seems to me I'm losing

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people.

One more thing, a reminder to you.
Spouses are invited for the first presentation tomorrow morning which is by a gentleman named Michael Dunn. He is a political motivation speaker. He does a fantastic job. And if your wife or husband would like to join us, please have them do so.

See you at 6:30.

(Which were all the proceedings at this session of Council which concluded at 5:10 p.m.)

* * *

T H I R D S E S S I O N

Tuesday, May 6, 1997

9:05 a.m.

CHAIRMAN MEDNICK: Good morning,
again, everyone.

I apologize for coming down a little
late this morning, but I got a very important call to
return from Actors Equity. So --

(Laughter.)

CHAIRMAN MEDNICK: This morning we
go back to our business agenda for the Spring Council
meeting.

Before we do, however, I want to
take this opportunity to extend my personal and deep
appreciation to John Hunnicutt and his entire staff in
Washington, D.C., as well as Gila Bronner and the
other members of the Federal Key Person Coordination
Committee, for the, I believe, outstanding day they
provided for us yesterday.

(Applause.)

CHAIRMAN MEDNICK: My wife, Sue, -
- I was going to say that my wife, Sue, actually sat
in on virtually the entire day and rated them a 10.
And I've never been rated a 10 by her in anything.

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(Laughter.)

CHAIRMAN MEDNICK: It did, quite frankly, accomplish all of the objectives I had hoped for for this special session and then some.

Not only were Members of Council provided with an excellent primer on how legislation, maybe sausage too, is made. But also I think it demonstrated to us the importance for the leadership of the profession to get personally involved, to roll up our sleeves, to become part of the political processes so we can demonstrate to our leadership in this country that we are and should be treated as a key public policy resource.

So it was an outstanding day, and thank you all for your participation. And for those who planned it, again, my deepest gratitude.

I have several announcements I am being asked to make this morning.

First of all, I understand that there are large CPA buttons on each of the tables. Please do wear them when you are up on the Hill and walking the halls of Congress.

There are several hundred of us who will be doing so and it is the multiple of the

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visibility of that button and the knowledge of others, Congressmen and their staffs who will be walking those same halls and seeing those buttons, that will give us the visibility that we want this afternoon and, again, this evening at the Library of Congress.

Don't forget to pick up the red Hill folders at the AICPA registration desk if you haven't done so already. They contain copies of the issues papers for you to leave behind when you make your visits.

Also when you're done, please share your experiences with the AICPA and also your State Society Executive Director so that we can review and discuss them at the conclusion of this meeting.

If you need a reimbursement form for the meeting, they are also available at the reception or registration desk.

Now, one other matter that I want to cover and I am doing this on behalf a former Chairman, Tom Rimerman, who had to leave early this morning. It is to urge you to at least consider participating in the World Accounting Congress which is scheduled for October 26th through the 29th this year in Paris.

I just came back from Paris, as I

1
2 think many of you know, a couple of days ago. It is
3 obviously one of the beautiful cities of the world
4 after, of course, Washington, D.C.

5 But it is a wonderful place to
6 visit. I have participated in two of these Congresses
7 in the past. They only occur every five years. The
8 program is excellent. It is a great opportunity to
9 network with other CPAs and chartered accountants
10 around the world. And I would urge you to do so.

11 Tom also asked me to tell you that
12 in the interest of encouraging Americans to attend
13 that Congress, one of his fellow past chairs, Bob
14 Israeloff, has agreed to perform an amazing feat at
15 the time the Congress takes place in Paris. Tom tells
16 me that Bob will jump off the Eiffel Tower with a
17 parachute.

18 And he wanted you to know, Bob,
19 these are Tom's words, to tell you how much he
20 appreciates that offer. Apparently within a half-hour
21 of the news becoming available, five members of
22 Council immediately signed up on the basis that they
23 could help pack the parachute.

24 (Laughter.)

25 CHAIRMAN MEDNICK: I apologize for

2 that, Bob, but that's your friend, Tom.

3 In any case, I am serious about
4 considering going. And when we break this morning, if
5 you look at the TV monitors outside the room, they
6 will be constantly playing a four-minute videotape
7 that explains more about the Congress.

8 It probably is in part travelogue
9 and it's nice to see the City of Paris in any case.

10 Finally, let's now turn to agenda
11 item No. 8. Specifically, Barry Melancon is going to
12 provide us with an update on some of the dynamic
13 changes which are taking place in our marketplace and
14 their significance to the Institute and profession.

15 Some of these matters, as you know,
16 were touched on by Barry during Regional Council
17 meetings in March.

18 However, new developments occur so
19 rapidly that Barry and I thought it would be useful to
20 give you another and even more current overview this
21 morning.

22 Consequently, without further ado, I
23 turn the microphone over to Barry.

24 PRESIDENT MELANCON: Thank you, Mr.
25 Chairman.

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2 If I feel a little out of synch in
3 this presentation this morning, it's because I
4 misplaced my glasses from last night and I'm not sure
5 I can read all of my notes.

6 (Laughter.)

7 PRESIDENT MELANCON: What I would
8 like to do this morning is to cover a few organization
9 or firm organizational trends and a couple of other
10 marketplace issues and give you a quick update. And,
11 as Bob said, we did cover some of these things at
12 Regional, but for the benefit of some of the Council
13 Members who were not there as well as our Members who
14 are participating as Committee Chairs or participants
15 in the Key Persons Conference, I'll go over some of
16 those issues fairly quickly.

17 First, from an American Express
18 perspective, I guess it's pretty widely reported that
19 American Express is targeted to invest something in
20 the neighborhood of about \$100 million to acquire CPA
21 firms over the next few years, and has revenue today
22 in their, what they call, Business and Tax Unit
23 somewhere in the neighborhood of about \$110 million.

24 In Texas, the American Express and
25 Texas Board decision is probably the second time in a

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2 case in which everybody claims victory and no one
3 claims defeat. So nothing has significantly changed
4 from an American Express perspective in the Texas
5 case.

6 It is important to note that
7 American Express is no longer -- at least reportedly
8 no longer has a practice unit in Texas, which caused
9 some of the standing issues to be raised in that case.

10 The Florida case is still on appeal.

11 You should also know that, as it
12 relates to American Express and some of these others,
13 I raised the issue of some of the independence
14 concerns as it relates to the so-called side firms or
15 the former firms remaining in practice and doing the
16 attest function, and how some issues of independence
17 arise in that matter.

18 Jerry Harris, who is the managing
19 partner of Checkers, Simon, has been very cooperative
20 with us on the aspect of the procedures and diligence
21 that is put in place within their firm in the American
22 Express relationship so that we can have a thorough
23 understanding of that aspect.

24 In fact, after meeting with me he
25 has met with our Professional Ethics Committee, in

2 fact just last week, because we had asked the Ethics
3 Committee to put squarely on its agenda an issue of
4 interpreting or looking at the independence standards
5 as it relates to some of the issues that arise in
6 these types of configurations.

7 And just as an example, one of the
8 issues that I raised in the Regional Council meeting
9 was where you're leasing employees back from another
10 entity, that entity being publicly owned, what if
11 you're auditing, for instance, a pension plan, and as
12 a part of the asset holdings of that plan there are
13 investments in that company that is the employer of
14 some of those workers.

15 And, obviously, a lot of us believe
16 that there is some concern from that area. And Jerry
17 understood that and is working and has, in fact,
18 addressed a lot of those things. And he believes that
19 American Express and the other firms it has acquired
20 have addressed a lot of those issues and they are
21 working with the Ethics Committee and our Ethics
22 Committee is clearly focused on that issue.

23 I also reported to you a couple of
24 public ownership roll-up type situations going on in
25 the country, one where a firm is intending to do

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what's called a simultaneous roll-up of firms. Apparently there are something in the neighborhood of ten to twelve firms under a letter of intent to possibly roll up their practices but keep their identities in their individual communities, and to go through an IPO at some point during this year.

That initiative, as we understand it, continues. And, in fact, there may have been some changes in the perspective since I met with you in March as to the target size of some of the firms that they are looking at. Our understanding now unofficially is that they are looking at even larger firms. Previously they were looking at firms, give or take, in the \$10 million range. We believe now that they might be looking at even large firms from that perspective.

I also reported to you something that had happened right around the time of the Regional Council meeting, and that is an Ohio situation in which a firm there, a professional firm, has sold out part of its -- again, bifurcated itself, as I reported to you at previous Council meetings, and the non-attest portion of that firm has been sold to a publicly traded company called International Alliance

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Services, Inc., a NASDAQ traded entity.

That entity has many different types of environments that they are operating in including the insurance and bond business and hazardous waste disposal.

The hazardous waste disposal unit is supposedly going to be sold and some of the proceeds from that sale will be used for a fairly aggressive acquisition of strategy and professional services areas, which would include CPA firms as well as non-CPA firms.

The Ohio Board, or representatives of the Ohio Accountancy Board have met with the principals of this entity to determine or to try to determine whether or not the arrangements are in compliance with the Ohio law.

It is reported that the meetings have been quite cooperative. Information has been exchanged freely.

And since that meeting the Ohio Board has determined that it was appropriate for them to request additional information, which they have. And the firm is responding to it in a very open and positive way. And they are working with legal counsel

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in Ohio as well as forming a committee of that Board to continue to study the issues.

The Ohio Board meets again on June 30th and intends to at least have an update on that issue at that time.

Also, in recent issues of the Accounting Today publication, I would like to just call your attention to some of the things that they've reported which I think indicates some of the marketplace trends that are happening there.

I would just like to read you the headlines of five different articles that appeared in a recent issue.

"Arena Robinson, Not Just Your Father's CPA."

"CPA Firms Are Not Just For Accounting Anymore."

"Local Firms Storm National Market."

"Corporate America Steps in."

"State Board Rules Thwart CPA Mobility."

And on the cover of one of their recent issues a report that Grant Thornton is considering, among others, a non-CPA for the position

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of CEO of that organization when their present CEO steps down.

From a marketplace perspective, in the top 100 firms reported by that same publication, fourteen percent -- I'm sorry, eight of them are what we would consider non-CPA firms, four of them in the top twenty-five.

And they also have reported that, as it relates to revenue gains, by far the largest, as we all know and it has been reported by Bob Elliott and others, the largest revenue gain is in the consulting area.

We are increasingly finding issues and correspondence from members and in discussion with members, members who are either choosing not to use their CPA designation or, in fact, giving up their CPA designation in order to, in their words, respond to some of the client concerns and marketplace issues that may seem appropriate.

In fact, many of our members today, and we are seeing an increasing number of them, registering to be investment advisors, and, in fact, choosing to go on a fee basis and other arrangements to manage funds for customers and clients.

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Now, those market trends also have some countervailing forces out there. I would tell you that, and this is a very informal survey, but as many of you know I have an opportunity to travel a lot and speak to many different groups of CPAs, and I would tell you that overwhelmingly during tax season and shortly after tax season the common comment that we receive, at least from a public practice perspective, is that CPA firms say they have been busier than ever, more profitable than ever.

And that actually is a very positive situation as we look back on Sunday's presentation which was focused on our visioning process.

While it is probably extremely difficult to get a profession and members of the profession to look at trends and opportunities to change when business is good, it is also absolutely the best time to be doing it.

And from that perspective, we are indeed fortunate as a profession.

I would be remiss if I didn't comment on some of the technology trends.

I think every indication is that the compliance aspect of our firms in the practice of

2 public accounting as well as members in industry
3 providing services to their employers, that the
4 compliance aspect of the services that CPAs have
5 traditionally performed is continuing at a very rapid
6 pace to be reduced both in relevancy and even in sheer
7 volume.

8 As you know, we are working with
9 Microsoft Corporation to develop technology advisors
10 and to help position the CPA firm to be not technology
11 gurus that set up computers and make them work, but
12 instead to focus on, particularly from a small
13 business environment, to focus on the advice necessary
14 in over 8,000,000 small businesses with twenty-five or
15 fewer employees to use technology more advantageously
16 to their businesses, in effect, to get a greater rate
17 of return on their technology investments.

18 And that data from Microsoft was
19 featured in the visioning video that you saw on
20 Sunday. And that clearly has been Microsoft's
21 commitment.

22 When Bill Gates visited with this
23 group in October, he pointed out Microsoft's
24 commitment to that. And I will tell you since that
25 time forward Microsoft has not wavered on their belief

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that the CPAs are the common denominator in developing and delivering technology advice to small business.

And they believe that developing a network of support for CPAs in order to do that is good business, not only for Microsoft, but for other technology providers. In fact, they have been helpful to us in bringing together a network of different technology companies to try to meet those needs.

You also know that we announced at that time that there would be a Microsoft conference. There is Microsoft conference in early June. That conference is on schedule and it will be focused on some of these types of initiatives.

Our speaker on Sunday also spoke about some other technology issues that are out there, such things as web TV and the growing delivery of services by CPAs on web sites.

In fact, you, as Council, a year ago in May of 1996 reported that seventy percent of you in the electronic touch pad, seventy percent of you in this room a year ago were servicing clients electronically across state lines. And that was a very high percentage.

And, obviously, if we took that poll

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today, it would be even greater.

From our members in industry perspective or government as well, the need to focus on a new finance ability to deliver information, not just financial information, quicker, better and cheaper is more prevalent today than ever before.

The response so far to our Center for Excellence in Financial Management, although there is still work to be done in that area, a lot of work to be done in that area, has been very positive.

Obviously, when we talk about the marketplace issues and the issues of where this profession is going, we would be remiss if we didn't focus on future CPAs, students.

CPA firms today continually report difficulty in hiring and finding experienced staffs. And students in universities continue to challenge us and others -- as you know, we now work very closely with Beta Alpha Psi; it is located in their house and, in fact, in the Institute offices in New York -- continue to question where is the CPA profession going.

And I think that traditional track of students graduating from college and going into

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public practice and then maybe later moving into industry has clearly changed.

There are many, many different tracks. And, in fact, many CPA firms today are hiring almost exclusively not from college campuses but from industry environments.

We also continue to need to face marketplace issues as it relates to minorities in this profession.

The Minority Issues Committee gave a dynamic report to our Board as it relates to the Strategic Planning Committee at our last Board meeting, and there is a videotape running with some programs that we are doing in this area.

But I don't want to report on minority initiatives as it relates to it being the right thing to do for our profession. Instead, I would tell you that minority ownership of capital is increasing by huge percentage rates in the marketplace. And if our profession is to be responsive to that public interest, it has to do it in a way in which this profession increases the minorities that are involved.

Which leads us to the question of

1
2 students again focusing on what will the CPA
3 profession look like.

4 And one of our initiatives in that
5 area in a response to that is to look at just the
6 component aspects of what the CPA Exam is.

7 There's presently an invitation to
8 comment that is out. Several states have spent
9 numerous amounts of Society resources, for instance,
10 Illinois has, both from a resource standpoint and a
11 volunteer standpoint, to provide very detailed input
12 into where the direction of the CPA Exam should go.

13 Our CPA Exam needs to be looked at.
14 If we expect to be professionals that provide
15 strategic and informational advice beyond the scope of
16 our traditional services, our exam must also represent
17 that.

18 And some of you have heard me speak
19 before and have heard me talk about what the "A" in
20 our name does from a marketplace perspective, that the
21 "accounting" word in our name tends to bucket us in
22 certain image aspects of the public, while other
23 organizations are beginning to focus on that as well.

24 The Institute of Management
25 Accountants, which issues the Certified Management

2 Accounting designation or CMA, has begun a major new
3 initiative. And it's at the infancy of issuing a new
4 designation called the CFM, the Certified Financial
5 Manager.

6 We believe that is an initiative on
7 their part to focus on two things.

8 One, to focus on the fact that
9 people are entering the financial management realm
10 from different sources, not just accounting sources.

11 And, secondly, because the public,
12 at least the public in their environment, which is
13 corporate employers, is reacting to the fact that they
14 don't necessarily want accountants, but they want
15 broader-based financial professionals. And they have
16 decided to offer a designation that attempts to meet
17 that demand.

18 As we look at the international
19 aspects, there are clearly major initiatives, from the
20 harmonization of accounting standards and auditing
21 standards, and, in fact, work between countries'
22 security regulators on trying to find ways to have
23 cross-border registrants.

24 IOSCO, which is the organization of
25 security administrators, is diligently overseeing the

2 activity of the International Accounting Standards
3 Committee and the work that FASB is working along with
4 them on, as we move to attempt to harmonize to a
5 greater degree accounting standards. It is not without
6 friction. It is not without problems. But the trend
7 lines clearly focus on the marketplace finding a way
8 to have harmonization in those areas.

9 It obviously has an impact on us as
10 well directly from harmonization challenges of
11 auditing standards.

12 What are the market trends telling
13 us?

14 Well, there are some obvious ones
15 and those which you heard Sunday in presentations, et
16 cetera, about change and speed in technology all
17 impacting what we are, how we go about doing what we
18 do.

19 But there are also some not so
20 obvious.

21 First is that we have to address the
22 image of how narrow or broad we will be. Our image
23 campaign is focused on and based on market research
24 and public input as to what our traditional image is
25 and what it should be.

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And, as you know, it is intended, our image campaign, to broaden that image.

And the marketplace is also telling us that quality service is being demanded from a lot of different ways; a lot of different services and a lot of different formats.

And that the title is not nearly as important as it has traditionally been, but instead the public is clearly looking to quality service offered in a professional way and delivered with ethics and a commitment to high level service for the public's benefit.

There are many different publics. We have many different member backgrounds.

And the world, the marketplace, will not change overnight one hundred percent. There are still opportunities for our members. And today and this past tax season I think certainly indicates that.

There are opportunities for our members to choose to finish their career or to finish a good part of their career in the traditional environment of being a CPA, and they will be able to do that.

And it is incumbent upon us as an

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2 Institute and State Societies to help members do that
3 to the extent possible.

4 But in exchange for that, we also
5 have to make sure that we move all members, focusing
6 on the future and focusing on the change that is
7 necessary for the profession, and those who do not
8 have that option of finishing their career in that
9 environment, an opportunity to prosper as CPAs and for
10 the CPA designation to be meaningful in the world
11 going forward.

12 We must continue to be and the
13 marketplace is telling us that we must continue to be
14 a broader profession.

15 And as Bob Elliott reported to you
16 in our Mission Statement, we say that we put emphasize
17 on public interest.

18 And I will tell you that clearly
19 today the marketplace is telling us greater than any
20 time probably in the history of this country that
21 there are many, many different public interests.

22 And though we cannot meet all public
23 interests, we have to choose to meet a variety of
24 those if we're going to be a viable and dynamic
25 profession moving forward.

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2 We think the message from the
3 marketplace, and in the end the message from the
4 marketplace will bear out, the message from the
5 marketplace is very strong and it's very consistent.

6 Thank you.

7 (Applause.)

8 CHAIRMAN MEDNICK: Thank you,
9 Barry.

10 We will now turn to the key item on
11 this morning's agenda, the consideration of the Final
12 Report of the Joint AICPA-NASBA Committee on the
13 Regulation of the Profession.

14 I thought we had a series of
15 excellent meetings in March at Regional Council, and
16 at each of those sessions you expressed overwhelming
17 support for the conclusions and recommendations
18 contained in the Joint Committee's Report taken as a
19 whole.

20 There were, however, also some
21 suggestions for change as well as a number of
22 excellent ideas on how to sell the report to our
23 membership and to State Boards and legislatures.

24 As we have throughout the process,
25 we have listened to your thoughts and recommendations

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and tried to be responsive to final concerns.

As a result of your input and as well as the input received by NASBA from its constituencies, the report has been modified, as you know, from the material distributed prior to the meeting in a few primarily technical and administrative respects.

While I believe the result has been an improvement in the final document, the changes made really do not modify the substance of what was previously presented to you at those Regional Meetings.

It remains a comprehensive and integrated package of proposals and recommended changes to the existing regulatory structure which in my personal view will be of significant benefit to all of our members and the public interest in today's information age and, as Barry just described it, the world of electronic commerce.

What I would like to do is quickly outline for you how we will proceed and then we will jump right into it.

First of all, and John Sharbaugh has come up to the podium, in a few minutes I'm going to

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have John quickly walk you through those handful of changes that were made to the earlier report, since the March meeting.

And I will then provide some overall comments and observations on the report and the significant opportunities I believe it provides to begin to redefine and reenergize this profession for 21st century practice.

We will then open up the floor for your questions, comments, observations, criticisms, whatever. And we would like you to, in fact, participate fully in that discussion.

After everybody has had an opportunity to voice a view, everybody who would like to, we will call for a vote on approval of the report in its entirety.

Following that, and if the vote is a positive vote, I will cover some related Council resolutions also distributed to you before the meeting that would implement the Joint Committee recommendations and some existing resolutions in our current bylaws so that they will then be brought up-to-date on a consistent basis.

I'm now going to ask John Sharbaugh

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to come to the microphone and let him walk us through the final changes to the report.

John.

MR. JOHN SHARBAUGH: Okay. Thanks, Bob.

I was a little nervous about doing this until last night. And the fact that I might embarrass myself in some way, I don't have to worry about it anymore.

(Laughter.)

MR. JOHN SHARBAUGH: I'm not an expert in these things, but I wouldn't give up those day jobs.

(Laughter.)

MR. JOHN SHARBAUGH: As Bob said, there are only a handful of changes to this report from the report that you received and discussed at the Regional Meetings of Council back in March.

And so I'm going to quickly walk through those with you through this powerful presentation.

There are five changes, five areas for change or addition that we are talking about to the report.

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Very quickly, those deal with the state of licensure, the experience for licensure, the attest experience requirement, the addition of a grandfathering provision for substantial equivalency and the addition of safe harbor language for non-licensees.

Let's take a look at each one of these.

First, state of licensure.

When we regrouped with NASBA after the initial exposure of the report, there was concern that the initial report called for licensure to be in your state of residency and there was concern that some CPAs might actually reside in one state but do their work in another state.

For example, you might live in New Jersey, but work in New York City.

We agreed that it made more sense that you have your license in the state where you do your work. So in that case you would get licensed in the State of New York rather than the State of New Jersey where you reside.

Under this concept you would still only be required to have one license and that license

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would be in your principal place of employment, state of your principal place of employment, where you have your principal office located. The determination of your principal state of employment will be determined by you, the CPA, on an individual basis.

And if your state of principal employment is considered to be substantially equivalent under the concept of substantial equivalency, then you would be able to use that license to practice in other states either in person or through electronic means.

Second change or second addition to the report from March deals with experience for licensure.

As you know, the initial report called for no experience being required for initial licensure, just education and passing the examination.

Again, in our discussions with NASBA it was felt that a complete elimination of the experience requirement for licensure would be viewed by many as a lowering of the standards for the profession.

So we have agreed that there should be a one-year experience requirement for licensure

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2 placed in the Uniform Accountancy Act. That
3 requirement will be broadly defined to accommodate
4 employment in all different fields, not just public
5 accounting. So that people who work in industry,
6 government or education will also be able to qualify
7 with their experience and get licensed, and that
8 experience would be gained either under the
9 supervision of a licensee or another qualified
10 professional person.

11 Another area that we are making a
12 slight modification is in the attest experience that
13 was detailed in the initial report.

14 In the initial report we talked
15 about that experience being defined in the accountancy
16 statute and regulations. With NASBA we agreed that we
17 would rather implement that experience requirement
18 through the professional standards and detail it
19 there.

20 The requirement would still apply to
21 the licensees and firms who supervise attest work and
22 actually sign reports on behalf of their firm.

23 It will be verified through the Peer
24 Review process just as we described it in the initial
25 report. And the appropriate or required experience

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will be detailed in the professional standards for each of those services.

So for audits, reviews, compilations and examination of prospective financial statements, which are the services we are defining as attest work, the required experience for doing those services will be detailed in the professional standards for those services and it will go through the normal exposure process that all standards go through. People will have an opportunity to comment on them before they are finalized and implemented.

Anybody who fails to meet that experience requirement would be considered to be in violation of professional standards and they would be subject to disciplinary action by the State Board, also by the AICPA.

We had a lot of comments at a number of our Regional Meetings of Council concerning substantial equivalency and the concern that states that have not yet passed the 150-hour requirement might be unduly discriminated against under this concept. And we were encouraged that some type of grandfathering provision be added to the report.

And NASBA has agreed with us to do

2 that so that the report now includes a grandfather
3 provision that provides substantial equivalency for
4 any licensed CPA who has passed the CPA Exam prior to
5 the year 2001 regardless of their educational
6 qualifications.

7 As long as they meet the other
8 standards that are required in the UAA, that is,
9 passing the CPA Exam and the experience that we'll
10 have detailed, they would qualify for substantial
11 equivalency.

12 We also agreed that, moving forward,
13 any state that passes 150-hour legislation would be
14 deemed to be substantially equivalent as long as that
15 legislation is implemented within six years of the
16 passing of the legislation.

17 There was concern raised by some
18 states that a person working on 150-hour legislation
19 as to whether they would qualify to be considered
20 substantially equivalent if they passed the
21 legislation in the next few years.

22 We also agreed to add safe harbor
23 language to the report and to the Uniform Accountancy
24 Act. This is an issue that the Institute and NASBA
25 have been talking about for several years within the

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groups that work on the Uniform Accountancy Act.

Safe harbor language is basically language that non-licensees can use in association with financial statements that is clearly not in violation of the law and rules.

There are about twenty states now that have safe harbor language of some kind, detailed either in their accountancy regulations or through case law that has established it in their state.

It basically provides guidance to non-CPAs to acceptable language that they can use. It clarifies that the non-licensee is providing no accounting representations or assurances on the financial statements, and it clarifies that the non-licensee is not licensed to perform attest services, that is, audits, reviews, compilations or examinations of prospective financial statements.

So that, very quickly, is the changes that we have made to the report.

And at this point we will entertain questions on those changes or anything else that is in the report that was presented to you at the March Meetings of Council.

CHAIRMAN MEDNICK: Thank you, John.

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Before we get to the discussion, and we will shortly, I did say I would like to give you a few personal observations on this report because I have been involved in the process almost from the time Bob Israeloff created the Special Mingle Committee.

And I would do so quickly, and then we will open up the floor for discussion.

Let me say, first and foremost in my mind, this is your report and I hope you are proud of it.

The iterative process that Council and the Mingle Committee has been going through now for more than a year with the Mingle Committee coming forward with recommendations and Council coming back with very significant and useful input I think has been an excellent and rewarding process.

Council first considered the issue of the creation of a new regulatory structure more than a year ago at Regional Council Meetings in 1996. It was a major agenda item in May and October of last year as I know well myself.

And, in fact, we went through it for yet a fourth time at Regional Meetings just a couple of months ago.

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2 As a matter of fact, I believe that
3 process can and should be used as a model for the
4 future in dealing with all major new initiatives that
5 need to work their way through the governing process.

6 This is, again, in part, the call
7 that Council gave Barry and I more than a year ago
8 now, and Ron Cohen, to get deeply involved in the
9 substantive issues and have an agenda that has meat on
10 the bones. I think it works.

11 Secondly, I believe the Joint
12 Committee Report provides us with a unique opportunity
13 to work on a partnership basis - and I really mean a
14 partnership basis - with NASBA, our regulators, to
15 jointly create a new regulatory environment that will
16 both protect the public interest and be conducive to
17 an expansion in high quality services intended to meet
18 the growing needs and demands of decisionmakers in our
19 society.

20 This is a wonderful opportunity and
21 I am pleased to announce that NASBA's Board of
22 Directors right here in this City of Washington just
23 this past Friday unanimously passed the Joint
24 Committee Report.

25 David Costello, who is the President

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of NASBA, I believe is with us today and he will also be available, if necessary, during the discussion to answer any questions.

But, David, I would like you to stand up and be recognized.

(Applause.)

CHAIRMAN MEDNICK: Thirdly, I believe the approval of this report will open up a whole new vista for the profession by focusing us on the marketplace and give us the opportunity to truly begin to transform this profession into what I have called premier information professionals for the 21st century.

The most important opportunity it provides, however - and this is my personal point of view - the most important opportunity I believe it provides is for us to recapture our own destiny and, frankly, bottomline, enable us to begin to define ourselves instead of letting others define us for ourselves.

Finally, I feel very strongly that this is the time to act. Certainly the marketplace is not going to slow down to let us catch up in a slower pace. We need to make a strong statement and I believe

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we need to make it today:

For the press, quite frankly, who I know are in the room watching;

For our regulators, who have proactively reached out to us to assure that we remain a vital profession in the future committing and fulfilling our societal role;

For our non-regulated competitors who would love the opportunity to see us hesitate and falter;

And, most importantly, for our members, particularly I would add our younger members, who better than any of us understand the need for change and are looking to us, the leadership, to assure the future of this great profession.

Before we move to open discussion, I think, in order to get this on the table in a formal way, I would entertain a motion to approve the report in its entirety and then we will discuss the issue.

A COUNCIL MEMBER: So move.

CHAIRMAN MEDNICK: Second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Okay.

I'll now throw open the floor for

2 discussion.

3 When you are identified, can you
4 please indicate your name and state. And we are
5 looking forward to hearing from you.

6 Skip.

7 COUNCIL MEMBER WAYNE FRASER: Mr.
8 Chairman, ladies and gentlemen of Council:

9 I'm Skip Fraser, the President of
10 the Florida Institute of CPAs and an elected Member of
11 Council.

12 I would like to take just a few
13 minutes to clarify Florida's position on this
14 particular matter because there seems to be a little
15 confusion on it.

16 In the way of background, the
17 Florida Accountancy Law we feel has always been at the
18 forefront nationally in terms of the types of
19 standards that are out there.

20 We've had the 150-hour requirement
21 for certification for approximately fifteen years or
22 so. We have just completed updating our accountancy
23 legislation within the past two weeks to incorporate
24 the non-CPA ownership of firms, commissions,
25 contingent fees, et cetera.

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2 We have had considerable debate
3 around the state or discussion - it really wasn't even
4 debate - on these particular matters. The concept
5 that's in the proposed Uniform Accountancy Act of the
6 attest function or the attest firm being perhaps a
7 different type of requirement is an idea that was,
8 quite frankly, hatched in Florida over the past couple
9 of years in response to the marketplace.

10 So most of the aspects that are a
11 part of the Uniform Accountancy Act are either already
12 embedded in the Accountancy Law in Florida or on the
13 drawing board for change.

14 And even though there are aspects,
15 minor points, within the proposal that could merit
16 discussion, we think that it represents a considerable
17 achievement of getting together and compromise and
18 very forward progress.

19 What we would like to let you know
20 is that the Florida delegation, all of whom are
21 sitting at this table over here, are unanimously in
22 support of approving the proposed Model Accountancy
23 Law.

24 Thank you.

25 (Applause.)

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COUNCIL MEMBER HAROLD SCHULTZ: I'm
Harold Schultz, Member of Council from California, and
I am speaking on behalf of the entire California
delegation.

All of us intend to vote in favor of
this proposal today. Each of us disagreed with some
elements of the proposal and some of the requirements
are contrary to positions that have been taken by our
Society's Board of Directors.

But all of us recognize that the
benefits of uniformity cannot be achieved if each one
of us designs our own model.

Through the efforts of the Mingle
Committee, the negotiating team, the Institute Board
and this Council, we believe that a product has been
designed and that that product is now ready to be
offered to the marketplace so that each jurisdiction
can make up its own mind.

So we urge you to join us in voting
to move this process forward today.

(Applause.)

COUNCIL MEMBER JAMES SMITH: Yes.
I'm Jim Smith from the State of Connecticut, a Council
Member.

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In issue 9a on our agenda we are being asked to approve the final report from the AICPA-NASBA Joint Committee on Regulation of the Profession.

This is a report that has been in the making since March of 1996 when the Committee was formed.

The report, however, in its final form came to us extremely late and was not available for adequate discussion at our State level.

In fact, Council Members from Connecticut made a real effort to be able to review the report to present it to our Board of Governors at a meeting last Wednesday.

The world would have had to stop to have that be able to happen. And as important and far-reaching as this report is, I'm sorry, it's not a world stopper.

I dare say that many, if not most, of you only took possession of this report for the first time at registration, and you may have had a little time at this meeting to read it, let alone go line by line in comparison to its predecessor to try to understand the subtlety of some of the changes.

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And, if polled, I would guess that few of us have had an opportunity to present the final report to our State leaders for a healthy dialogue.

And what of the 300,000 plus members whose future could be dramatically affected by this report? Well, quite frankly, nobody asked them.

Well, spring is the mischief in me, using some words of Robert Frost, and before I built a wall, I would like to know what I was walling in and who I was walling out and to whom I always like to give a fence.

But we're not talking about building walls here. We are talking about taking walls down. But I think the same concept applies.

We need more time not only to understand the report ourselves, but also to seek that feedback.

Some might argue that we, in essence, saw and discussed the report at Regional Council Meetings in mid-March and that the only changes are clarification and improvements.

Well, I don't know what your life was like in the months of March and April, but I know one small firm practitioner who wasn't calling for

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special member forums or special meetings to discuss a report whose final form was not yet seen.

In each presentation at the Council level and in Connecticut that I attended where the report -- where the concept of uniformity and portability of a license to practice was discussed, it was talked about like motherhood and apple pie.

Well, I love my mother and I love my wife, the mother of our children. And with Mother's Day coming this Sunday, I'm not touching that one.

So let's talk pie.

We are asked and have been asked to take a whole pie and not to take it apart and examine the ingredients for fear that we may not like this ingredient or we might not like that ingredient.

And if we find that three or four ingredients are distasteful, we might not like the whole pie.

Which ingredient could it be that we might not like?

Perhaps after much debate we would prefer a two-tier versus a one-tier system.

Could it be the experience requirement, one that with a literal meaning could

1
2 have a non-CPA overseeing experience in an environment
3 having little to do with anything related to attest
4 and having that experience qualify for licensure?

5 Could it be that he finds it
6 distasteful the ingredient that deals with commissions
7 and contingent fees? Oh, no, not the "C" words.

8 Perhaps you wonder why previous
9 Boards of Directors of the Institute did not follow
10 this body's last directive calling for the AICPA to
11 support states in seeking legislation to prohibit
12 commissions.

13 Perhaps you feel along with our
14 special analytical skills our claim to fame has been
15 our objectivity and independence.

16 Perhaps you fear that that
17 perception may be forever lost when we readily accept
18 commissions and contingent fees as compensation for
19 non-attest services.

20 Could it be that ingredient that now
21 calls for just fifty-one percent of a cup, when the
22 last time we made the pie it was two-thirds of a cup,
23 and before that the recipe always called for a full
24 cup?

25 Could it be that ingredient that

2 previously said that attest services -- and this is in
3 the preliminary report -- may only be performed by a
4 licensed CPA and a licensed CPA firm, and now the
5 report reads that attest services may only be
6 performed by a licensed CPA firm?

7 And you wonder if that means that
8 some day with fifty-one percent ownership that a non-
9 CPA partner and audit partner may be permitted to
10 oversee and sign off on an attest function work.

11 We know that those who wrote the new
12 recipe are well respected and, in fact, deeply
13 respected, and that they have spent a lot of time
14 developing it.

15 You also have a high regard for
16 others who recommend that you approve it.

17 At the same time, however, you know
18 that one of the skills that has made you successful
19 all your career is your professional skepticism.

20 Could it be that the ingredient that
21 you don't like is that the approval process for the
22 recipe now calls for two minutes in the microwave when
23 you've always used the oven for forty-five minutes,
24 and even at that, tested it with a toothpick once or
25 twice?

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Or could it be that you just feel that you cannot approve the recipe because you didn't have the opportunity to run it by some of the chefs back home?

One member of the AICPA Board of Directors said at our New England Caucus on Tuesday morning that Council deserves an apology for the tardy delivery of the final report.

While an apology would be nice, it doesn't solve our delegation's problem.

We all know that the profession and the environment is changing and it is changing rapidly. Some feel that we have a short window of opportunity to act on this proposal or all momentum may be lost. To some fear is a motivator. To me it is not.

I speak not in favor nor opposed to the resolution itself. The issue raised is that our concerns deserve debate and resolution at the State level before I can vote the conscience of our State.

I speak only to request time to fully explain each provision of the final report to our State leadership and seek support for the provisions that are acceptable.

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Consider that we, as leaders, from time to time may have to drag our members kicking and screaming to taste the pie. That is certainly different from forcing them to eat it before they leave the table.

Please let us lead and not dictate.

And on that basis I understand that a motion will be placed to call for a special voting procedure which I would hope that you would support to allow us the time to lead and not to dictate.

Thank you.

CHAIRMAN MEDNICK: Thank you for your comments.

Ted, do you intend on making your motion at this point?

COUNCIL MEMBER THEODORE KREINIK:

Not at this point.

CHAIRMAN MEDNICK: Thank you again for your comments.

I'm going to move to this microphone.

COUNCIL MEMBER ALAN STEIGER: Mr. Chairman and Council Members:

I'm Alan Steiger from the State of

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2 Oregon.

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4 I believe we have before us an
opportunity we cannot pass up.

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6 Council does not control licensing
and regulation in the fifty-four jurisdictions. NASBA
7 has agreed to work with us to find mutually acceptable
8 conditions for moving forward, and move forward we
9 must.

10

11 Whether or not you agree with all of
the particular details in the Task Force Report, I
12 urge you to look at page three under the key goals and
13 objectives. That's what the Task Force was working
14 towards, that's what Council agreed we wanted to see.

15

16 If we defeat or even delay the
momentum that has been created, we will lose.

17

18 The Oregon Council Members urge you
to support the Report on Regulation and Structure of
19 the Profession.

20

21 CHAIRMAN MEDNICK: Thank you very
much.

22

(Applause.)

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CHAIRMAN MEDNICK: Barry.

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COUNCIL MEMBER BARRY SEIDEL: Mr.

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Chairman, I'm Barry Seidel, a Member of Council, and

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the incoming President of the New York State Society of CPAs.

The New York delegation recognizes the efforts both on the part of the AICPA and NASBA to put out a report that reflects the needs of our profession going into the next century.

We feel that, although it's not perfect, it recognizes the needs of our membership, the marketplace and the country.

We, of course, could find small items that we might change and, in fact, feel that the changes that have been made since the report was presented at the Regional Council are insignificant when compared to the impact of this report.

We feel that the momentum that has been created and the bond that has been created between the AICPA and NASBA make a report that we strongly support.

And on behalf of the New York delegation we urge the Members of Council to unanimously support the implementation of this report at this time.

Thank you.

(Applause.)

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CHAIRMAN MEDNICK: Someone is standing at the back microphone. It's hard to see that far.

COUNCIL MEMBER JEROME KREGER: My name is Jerry Kreger. I'm a Member of Council and President of the Ohio Society of CPAs.

The Ohio Members of Council support the proposal before us today.

There has been more than adequate discussion within the Council and in many of the State Societies.

The time has come for the Council to stand and be counted by voting in support of implementing these recommendations.

With all due respect to the views of the Connecticut delegation, Ohio's Members of Council feel that there has been adequate discussion of the issues and the time has come for Council to act now.

Thank you.

(Applause.)

CHAIRMAN MEDNICK: Do you want to make it or do you want to wait until others have -- it's your pleasure, Ted.

COUNCIL MEMBER THEODORE KREINIK:

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No. I'm fine. I think it's helpful to hear all of this discussion and then we will make a procedural motion.

CHAIRMAN MEDNICK: Okay.
John and then Sam.
Let's go over here first.

COUNCIL MEMBER JOHN EADS: Thank you, Bob.

I'm John Eads, Member of Council and current President of the Texas Society of CPAs.

And our Council Members have met and a majority voted to support this resolution and to move forward.

And then we will have an opportunity again to visit those individual issues within our states.

CHAIRMAN MEDNICK: Thank you, John.
(Applause.)

COUNCIL MEMBER SAM DERIEUX: Sam Derieux, Council Member from Virginia.

CHAIRMAN MEDNICK: And Past Chairman.

COUNCIL MEMBER SAM DERIEUX: Thank you.

I remember about twenty-five years

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ago as the issue was before us, and I remember getting UP before Council and saying that there are times when leaders should lead and not wait to be led.

This is one of them. I think we should move forward even if there is a small part that we might disagree with or prefer to change.

I think we ought to move forward. We ought to move forward now affirmatively.

(Applause.)

CHAIRMAN MEDNICK: Again in the back of the room.

COUNCIL MEMBER GORDON SCHERER:

Thank you, Bob.

I'm Gordon Scherer, President of the Pennsylvania Institute of CPAs and Member of Council.

And the Pennsylvania delegation met and has been reviewing not only the current final report but the previous reports, and agree that there are certain items that we would view maybe differently. We appreciate consideration of the Joint Committee and hearing Council in making changes.

And we support the Joint Report and would ask those of you to join with us as we move forward. And as we talk about visioning and the

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changes, we hope that Council would find the ability to support that.

We feel that if we don't move forward, the potential is that we become roadkill along the highway of change.

(Applause.)

CHAIRMAN MEDNICK: At that microphone, please.

COUNCIL MEMBER WILLIAM STRAIN:

Bill Strain, Council Member from Nebraska.

In this City I would say, with all due respect to our distinguished colleagues from the great State of Connecticut, I think that we are ready to vote.

I think that it's fairly clear as to the direction we're going. We have a great framework here. There are details to be worked out. I would be more than happy to pass those details on to our implementation team.

And I'm not sure about the procedural move here, but I would call the question.

CHAIRMAN MEDNICK: Well, I'm going to -- if I may, Bill, if you would permit me, there is someone way in the back who I didn't see who wants to

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1 speak.

2 And then I put that off and Ted
3 should have an opportunity.

4 So I'm sorry. It's hard to see back
5 there.

6 COUNCIL MEMBER DERALD LYONS: I'm
7 Derald Lyons, the current President of the Colorado
8 CPA Society.

9 And I think a few speakers ago was
10 Gordon Scherer. I would just like to say that Gordon
11 has certainly changed in the last few years.

12 For those of you who don't know what
13 I'm talking about, Gordon Scherer was our Executive
14 Director, a different Gordon Scherer from 1953 to
15 about five years ago.

16 In any event, the perspective I
17 would like to bring to this is I'm a relatively new
18 Council Member. My first meeting of Council was last
19 October in Chicago. So I see the process of this issue
20 developed from that time forward.

21 I certainly understand Connecticut's
22 concern about recently receiving the changes to this
23 proposal.

24 However, I'm still very comfortable,

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even though I'm a new Member of Council, I'm very comfortable with moving forward on this.

I saw the discussion at Council meeting. I attended the Regional Council Meetings in March, the Regional Council Meeting in March, and have seen this process evolve.

And while there are some changes in the recent draft, I feel that they are relatively minor.

As a result, the Colorado delegation unanimously supports passage of this endeavor today.

Thank you.

(Applause.)

CHAIRMAN MEDNICK: Ted, please.

COUNCIL MEMBER THEODORE KREINIK:

Good morning, everybody. I'm glad to talk about apple pie and roadkill.

I sort of thought -- for those of you who are my age, which is a boomer, if you remember George McGovern. He had one state. That's it.

So I must say --

(Laughter.)

COUNCIL MEMBER THEODORE KREINIK:

And I appreciate the humor.

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But let me just make the point.

A COUNCIL MEMBER: That was
Massachusetts.

COUNCIL MEMBER THEODORE KREINIK:
First of all, we would like to thank the Connecticut
delegation and a number of other people who've
expressed, not from Connecticut.

We would like to thank Bob Mednick.
We would like to thank Barry
Melancon.

We would like to thank Rich Miller.
We would like to thank John
Hunnicuttt.

Over the past few days they've
helped us craft together what we believe is a fair
resolution which I'll go into in a minute which deals
with a slight procedural change.

It does not get into the substance,
does not get into arguments about the report, but I
think deals fairly with what we have.

It's also because we want to honor
the Mingle Committee and the Members of that Committee
that we feel that it is only fair that our State
Society have an opportunity to be exposed to the

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report in March and also the report in April, the final report, before voting on this issue.

Let me get into the formalities.

"WHEREAS, we believe that the final report on the Joint Committee on Regulation of the Profession will have a significant and far-reaching impact on the profession; and

"WHEREAS, the final report was only released a few days prior to the Council Meeting; and

"WHEREAS, certain State Societies and many individual members of the AICPA and those Societies may not have had an opportunity to review the final report and seek support from their respective States; and

"WHEREAS, the AICPA has scheduled certain time commitments in June regarding the final report;

"NOW, THEREFORE, we move to change the voting procedures to permit Council Members to cast their vote on agenda item 9a by delivering their vote in writing to the Secretary of the AICPA at any time up to 5 p.m. Eastern Daylight Time, on Tuesday, May 27th, without the need for secrecy."

We feel that this satisfies the need

2 for the Institute to move along. They have commitments
3 in June and July. We feel that this gives us the
4 opportunity to have a special meeting of our Board on
5 May 13th just before our annual meeting, which gives
6 us the time to review the whole report and have them
7 look at it.

8 We hope that they will support the
9 report. We don't know. But they have not had an
10 opportunity, as you and I have, to review the report.

11 In March, it was the first time we
12 received the first published report.

13 Now, I don't disagree that there
14 were some changes between March and April, but we had
15 questions and answers, we had very good discussions,
16 we as Council Members.

17 We may have brought that back and we
18 did bring that back to our individual State Societies
19 and our Boards.

20 But at that point, at no point prior
21 to March, did anyone have a preliminary report, a
22 published report.

23 We received our report in April, one
24 hour before our Board meeting, and we did not have
25 adequate time.

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We believe that this procedural change will not affect it. Those of you who are in favor of it today can walk out of here and vote in two minutes. Those of you who would like to take it back to your Boards and discuss it and come back can vote and you can vote to May 27th. It does not affect anything that anybody would not do prior to this.

We beg your indulgence in doing this and we would like you to support this motion.

Thank you.

CHAIRMAN MEDNICK: Thank you, Ted.

I presume there is a second from Connecticut.

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: I see a second.

A COUNCIL MEMBER: A point of order, Mr. Chairman.

Did you not have a motion on the floor?

CHAIRMAN MEDNICK: We do have a motion on the floor and, in fact, I will ask Rich Miller how this applies.

MR. RICHARD MILLER: We can go forward with this one only because the Chair of this

2 meeting made a personal commitment to permit this
3 motion before the call of the question.

4 CHAIRMAN MEDNICK: Let me explain
5 and I should explain anyway because, in fairness to
6 Ted and in fairness to Barry and I, the Connecticut
7 delegation did come to us, Ted in particular, and it
8 is true that we asked John Hunnicutt and Rich Miller
9 to help them, because in fairness we wanted to put it
10 in a form that would leave them with an opportunity to
11 raise an issue, which I think any Member on Council
12 should have the right to raise.

13 Ted used the word "support," and we
14 did support their drafting of the resolution.

15 I told Ted that he would tell you
16 just like I am that I made it personally clear and so
17 did Barry that we do not favor this motion, but in
18 fairness to them I wanted them to have the opportunity
19 to put it on the floor.

20 Actually that motion, it turns out,
21 has been debated by about five or six people already.

22 And I am not uncomfortable, in
23 fairness to them, taking a voice vote since I see no
24 one at the microphones and because there has been
25 discussion of the issue.

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MR. RICHARD MILLER: And one other technical point, a vote on that motion will essentially call the question because there are no other speakers.

CHAIRMAN MEDNICK: In other words, if this motion is defeated, we will then move to the original motion on the table.

And I am far from an expert on Robert's Rules of Order, but I am going to rely on Rich in that case.

So, again, in an effort to be totally fair, the motion, as you heard it, and if someone wants me to do better than simply paraphrase it, we will have Rich read it.

But the motion is to effectively change the voting procedures. This is in a sense a call almost for a suspension of our rules to change the voting procedures to enable those who like to vote any time between now and the end of this month and vote at their convenience in writing.

Is that clear?
(No response.)

CHAIRMAN MEDNICK: All in favor of that motion, signify by saying "aye."

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(Scattered "ayes.")

CHAIRMAN MEDNICK: All opposed say
"nay."

(Chorus of "nays.")

CHAIRMAN MEDNICK: The "nays" have
it.

Again, I will give anybody else who
wants an opportunity to speak the right to speak.

If not, we will move to the original
motion on the floor which is to approve the Joint
Committee Report in its entirety.

MR. RICHARD MILLER: There was a
motion actually to call the question.

CHAIRMAN MEDNICK: You tell me,
Rich. I don't want to do this illegally.

MR. RICHARD MILLER: There was a
motion to call the question. You should vote on that
which would cut off debate.

CHAIRMAN MEDNICK: Okay.
All in favor of calling the question
signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any opposed?

(No response.)

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CHAIRMAN MEDNICK: Now we will vote on the motion as I just described it.

And because of the importance of this, if you will bear with us, we would like to have those in favor stand. Frank Katusak, as we have in the past, Frank Katusak and John Hunnicutt will walk through the room and have you count off so we get an accurate vote.

All in favor, would you please rise.

(A standing countoff vote was conducted.)

CHAIRMAN MEDNICK: We have a vote of 181 on the "ayes."

But before we move forward, John Hunnicutt wants to make sure - and I want to make sure even more - that anybody here, because it was noisy out there, quite frankly, and it's a difficult procedure - if there is anybody here who was out or would like to be counted in the "ayes" and was not, this is your opportunity, before we count the "nays."

(No response.)

CHAIRMAN MEDNICK: Okay.

Those opposed, please stand up and we will have you count off.

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(A standing countoff vote was

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conducted.)

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CHAIRMAN MEDNICK: Four nays.

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And I will ask if there are any

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abstentions.

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COUNCIL MEMBER THEODORE KREINIK:

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Excuse me, Bob.

9

In lieu of voting abstention, the

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State of Connecticut and its four delegates would like

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to vote "present."

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We would like to take the

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opportunity to review it with our Board and we hope

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that we will be able to change our vote to a positive,

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to "aye." And when we come back at the Fall Council,

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that will be reflected in the minutes.

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CHAIRMAN MEDNICK: Okay.

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The vote then is officially -- I am

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going to ask Rich to explain a procedural question

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that has come up in the interim -- but the vote is 181

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in favor, 4 opposed, 4 voted present.

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Thank you all very, very much.

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(Applause.)

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CHAIRMAN MEDNICK: There was a

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question that got raised because Bill Strain did call

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2 the question.

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I did not hear a second and I did ask Bill at the time if he would defer to the fact that I had asked Ted to step back, and I felt it was unfair not to permit him to move ahead.

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But just so we have this parliamentarily correct, I am going to ask Rich to explain it and we will put it behind us.

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MR. RICHARD MILLER: Ted's motion would be treated as a motion to amend the main motion, to alter the voting procedures for that vote. And, therefore, the amendment gets voted on before the main motion.

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So it was in order to vote before the main motion.

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It could have been treated as a motion to suspend the rules. That also would take precedence. It would have required a two-thirds vote.

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We felt in helping Ted formulate this, that we try to find a way where it would only require a majority, and that's a motion to amend which is what we came up with and that's the way it was utilized.

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So we were in order and we were

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legal.

CHAIRMAN MEDNICK: Thank you, Rich.
And thank you all very much once
again.

This is a time of change and we do
have a momentum going. And I am personally extremely
pleased.

Now, we have several related things
we need to still do, what I have been describing to
you as related resolutions and bylaw amendments to
bring our existing Council resolutions and bylaws in
synch with the report which was just approved.

The first of those is to modify an
existing Council Resolution on Firm Ownership and
effectively change the existing requirement for two-
thirds ownership by licensed CPAs to a simple
majority, and to apply it only to firms holding out as
CPA firms. No other provisions of the existing Council
Resolution have been changed.

That was a question, of course, that
came up at several Regional Meetings. We are touching
nothing else.

The actual language of the proposed
change and the revised resolution was included in the

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material distributed prior to the meeting under I and II of Items 9b and c.

(The following are the written resolutions:

"RESOLVED: That the Council Resolution Concerning Form of Organization and Name be amended as follows: In paragraph numbered 1 thereof, delete the phrase 'super majority (66 2/3 percent)' and put in its place the word 'majority.'"

"RESOLVED: That the Council Resolution Concerning Form of Organization and Name be amended by deleting the first two lines thereof following the word 'RESOLVED:' and substituting the following:

"That with respect to a firm or organization which performs an audit, review or compilation of a financial statement or an examination of prospective financial information or which holds itself out as a firm of certified public accountants or uses the term certified public accountant(s) or the designation CPA in connection with its name, the characteristics of such a firm or organization under rule 505 are

2 as set forth below. The characteristics of all
3 other firms or organizations are deemed to be
4 whatever is legally permissible under applicable
5 law or regulation.'")

6 CHAIRMAN MEDNICK: Do I have a
7 motion to adopt the revised resolutions?

8 A COUNCIL MEMBER: So move.

9 CHAIRMAN MEDNICK: Second?

10 A COUNCIL MEMBER: Second.

11 CHAIRMAN MEDNICK: Any questions on
12 that resolution and proposed change?

13 (No response.)

14 CHAIRMAN MEDNICK: If not, based on
15 the prior vote, I think it should be satisfactory to
16 do this by voice vote and I intend to do so.

17 COUNCIL MEMBER RAYMOND DEVER: Bob?

18 CHAIRMAN MEDNICK: Oh, I'm sorry.
19 Ray.

20 COUNCIL MEMBER RAYMOND DEVER:
21 Could I ask a question?

22 I wasn't sure where the final
23 resolution was going to wind up. I'm certainly not
24 standing up here to try to stop this motion.

25 But I do point out, and I have had

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discussions with Rich earlier, that there is an inconsistency in the language of this motion as to the definition of attest services from that which we just voted on as part of the final committee report.

And if you want, I'll expand on that.

CHAIRMAN MEDNICK: Well, either you or Rich should explain what the issue is because I'm not familiar with it.

COUNCIL MEMBER RAYMOND DEVER: All right.

In the final committee report that we just voted, attest services was defined to include audits and other engagements covered by the SASSs.

This motion to amend Rule 505 of the Council Resolution only relates to audits.

Secondly, the motion we just -- or the report we just voted on covered compilations and reviews under the SARS. This only says compilations and reviews.

Now, I recognize this is a lesser issue, but I suppose technically someone could conclude that compilations covers compilations of prospective financial information as well and reviews

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under the attestation standards, which in my understanding have been specifically excluded intentionally.

CHAIRMAN MEDNICK: It has been.

Let me try to respond, and then I will ask Rich if, in fact, an amendment is in order although I would consider it to be technical.

We have been throughout this discussion for ease of discussion referring to audits, reviews and compilations in a broad generic sense. Broad maybe isn't the right word, but generic is.

We have not done all the legal words that typically get done to talk about audits. And, in fact, the report, as you described it, Ray, says audits as described and covered, encompassed by Statements on Auditing Standards.

It is true that there are other things you can audit. You can audit one element of a statement and that is an audit. And you can provide compliance reports and so forth which come under the Statements on Auditing Standards.

So, in part, it is the use of words here and we have used shorthand.

Now, I will ask Rich if he would

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feel more comfortable if the resolution before us said "compilations and reviews in accordance with SARs" and refer to "audits and related services in connection with Statements on Auditing Standards."

I will defer to your judgment.

MR. RICHARD MILLER: First of all, Ray, there is no inconsistency on the compilations. To the extent there is any inconsistency it's because the report on page seven, on the bottom, says "any audit or other engagement performed in accordance with SAS."

Whereas, the new 505 would just say "audit."

It also though says that any firm that's a CPA firm or identify themselves as a CPA firm or use the CPA in connection with its name.

Any report that someone does in accordance with the SAS will be using CPA in accordance with their name.

So I am confident that leaving the definition, leaving the wording of 505 the way it is, and taking everything that is taken in by the definition of attest on page seven.

I don't think the change is necessary, but I have no problem with doing it. And

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2 I'll leave it up to the Chair.

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CHAIRMAN MEDNICK: Okay.

4

5 What Barry just whispered in my ear
6 up here and you saw was that we felt that we had a
7 commitment to use those very generic words we have
8 been using in the resolution, "audits, reviews and
9 compilations" and leave it at that.

9

10 I am not at all opposed to fleshing
11 that out so it is consistent, referring to the
12 literature, which is our literature. Statements on
13 Auditing Standards are ours obviously, as are
14 Statements on Reviews and Compilations.

14

15 No one is jumping up and down either
16 way on this. And Rich is kind of saying we can go
17 either way.

17

18 My suggestion would be, since Ray
19 raises the issue to amend the 505 and make it
20 consistent, there is absolutely no change in the
21 intention or the discussions we've had, it does make
22 it a little longer and it also at the same time will
23 make it absolutely clear if there is any other doubt.

23

A COUNCIL MEMBER: So move.

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25 CHAIRMAN MEDNICK: So -- there is a
motion --

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A COUNCIL MEMBER: Second.

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CHAIRMAN MEDNICK: -- to make that change and a second to the motion.

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I'm going to let Rich read the revised language, and then we will vote on the amendment and then we will vote on the motion itself.

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MR. RICHARD MILLER: If you turn to page two of your packet under 9b and c, the revised resolution, at the bottom of the page you see how the new resolution will read.

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The new wording will now read as follows: "RESOLVED: That with respect to a firm or organization which performs an audit or other engagement performed in accordance with Statements on Auditing Standards, review or compilation of a financial statement or an examination of prospective financial information or which holds itself out as a firm of certified public accountants..." the rest is the same.

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CHAIRMAN MEDNICK: Rich, if I may, why don't we say "Statements on Review and Compilation Services in accordance with..." -- I'm sorry -- "Reviews and compilations in accordance with Statements on Review and Compilation Services."

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2 MR. RICHARD MILLER: I have no
3 problem doing that. If you want, I'll add that.

4 What I was saying before is there
5 really is no inconsistency.

6 CHAIRMAN MEDNICK: Well, Ray raises
7 some question about some day someone might say
8 something else that's a compilation or review falls
9 under it. So I would prefer to get it just right.

10 MR. RICHARD MILLER: All right.

11 So I'll change it.

12 "That with respect to a firm or
13 organization which performs any audit or other
14 engagement performed in accordance with Statements on
15 Auditing Standards, any review of a financial
16 statement or a compilation of a financial statement
17 performed in accordance with the statement on
18 Standards for Accounting and Review Services, SARS,
19 and any examination of prospective financial
20 information performed in accordance with the statement
21 on Standards for Attestation Engagements, or..." and
22 if you look at the next to the last line on page two,
23 the rest will remain the same after the "or."

24 CHAIRMAN MEDNICK: Okay.

25 Frankly, I view it -- I consider

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this to be simply a clarification, absolutely no change in intent and I appreciate, Ray, your bringing it to our attention.

I don't see anybody at a microphone.

We will first vote on amending the resolution as you received it in your package.

All in favor of the amendment signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any opposed?

(No response.)

CHAIRMAN MEDNICK: Okay. I don't see anybody at a microphone now.

So we will actually vote on the amended resolution.

All in favor of the resolution signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any opposed?

(No response.)

CHAIRMAN MEDNICK: The "ayes" have it.

Now, another part of our agreement with NASBA is to provide for flexibility and

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2 innovation in deriving methods of learning and
3 measurement to satisfy the CPE requirement.

4 In order to permit such flexibility
5 and innovation we are asking you also to amend the
6 relevant Council resolutions as they are set forth
7 under - and you can look in your packet - III of Items
8 9 b and c.

9 (The following is the written
10 resolution:

11 "RESOLVED: That all the
12 Implementing Resolutions of Council relating to
13 the continuing professional education
14 requirement in Section 2.3.3 of the bylaws are
15 amended by replacing them with the following
16 resolutions:

17 "COUNCIL RESOLUTIONS TO IMPLEMENT
18 BYLAW SECTION 2.3.3.

19 "RESOLVED: That pursuant to Section
20 2.3.3 of the bylaws the continuing professional
21 education requirement for membership in the
22 American Institute of Certified Public
23 Accountants shall be as follows:

24 "From January 1, 2001 forward and
25 for each three-year reporting period thereafter,

1
2 all AICPA members shall complete 120 hours, or
3 its equivalent, of continuing professional
4 education. Compliance can be achieved either by
5 a formal program of education or by any other
6 means, however measured, that would be
7 reasonably expected to maintain professional
8 competencies in the member's area of practice or
9 employment. Members shall report compliance with
10 such requirement to the AICPA each year and
11 shall keep appropriate records and submit copies
12 of such on request of the Institute;

13 "AND BE IT FURTHER RESOLVED:

14 "That the Board of Directors, or a
15 body designated or appointed by it, shall have
16 the power and authority to:

17 "(a) identify and accept methods of
18 learning to meet and measure this continuing
19 professional education requirement.

20 "(b) grant exceptions for reasons
21 such as retirement, inactive dues status,
22 health, military service, foreign residency, or
23 any other reason it deems appropriate.")

24 CHAIRMAN MEDNICK: Do I have a
25 motion to adopt the revised Council resolutions?

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A COUNCIL MEMBER: So move.

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CHAIRMAN MEDNICK: Any second?

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A COUNCIL MEMBER: Second.

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CHAIRMAN MEDNICK: Okay.

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I'm going to give you an opportunity to look and make sure you understand what we are doing here and then see if there are questions before we vote.

10

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Again, the purpose of this is to simply give adequate flexibility to the CPE requirements going forward.

13

14

I don't see anybody at a microphone again. So let me ask.

15

16

All in favor of this resolution signify by saying "aye."

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(Chorus of "ayes.")

18

CHAIRMAN MEDNICK: Any opposed?

19

(No response.)

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CHAIRMAN MEDNICK: It passes.

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The third item involves changes to our bylaws as well as Council Resolutions, again totally consistent with the Joint Committee Report, to recognize that there will be and, quite frankly, are, in fact, today, CPAs who perform services, such as

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consulting, that fall within the broad definition of the practice of public accounting, but who practice in non-traditional firms like Booz Allen as an example.

It is unrealistic and unreasonable and, in fact, we have not been applying the existing standard in practice, to require their employers to register in the Practice-Monitoring Program, again as our current bylaws technically do.

Once again, the actual language of the proposed bylaw changes and the changes to the related Council resolutions was distributed prior to the meeting and the materials you are looking for now are under IV of 9b and c.

They would effectively require that in the future only CPA firms that perform services subject to practice monitoring, like audit, review and compilation, will need to register with a practice-monitoring program.

Again, a technical amendment. And, in fact, in this case a bylaw change which we will have to send to our members when we send out bylaw changes next to, in fact, conform us with the Joint Committee Report.

(The following are the written

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2 resolutions:

3 "RESOLVED: That the second and
4 third Council Resolutions under Sections 2.2.3
5 and 2.3.4 be amended by adding the following
6 phrase at the end of the first sentence of the
7 second resolution and after the phrase
8 'practice-monitoring program' in the third
9 resolution,

10 ",if the services performed by such
11 a firm are within the cope of the AICPA's
12 practice-monitoring standards and the firm
13 issues reports purporting to be in accordance
14 with AICPA professional standards.'

15 "and to add the phrase 'as required
16 by this resolution' at the end of the third
17 resolution;

18 "AND BE IT FURTHER RESOLVED: That
19 the above amendments will only become effective
20 if the membership votes to similarly amend bylaw
21 sections 2.2.3 and 2.3.4.")

22 CHAIRMAN MEDNICK: Do I have a
23 motion to ask the membership to amend the bylaws as
24 described and also to adopt the revised Council
25 resolution?

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A COUNCIL MEMBER: So move.

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CHAIRMAN MEDNICK: Second?

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A COUNCIL MEMBER: Second.

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CHAIRMAN MEDNICK: Again, any

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questions or comments on this change?

7

(No response.)

8

CHAIRMAN MEDNICK: If not, all in

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favor, signify by saying "aye.

10

(Chorus of "ayes.")

11

CHAIRMAN MEDNICK: Any contrary-

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minded?

13

(No response.)

14

CHAIRMAN MEDNICK: None.

15

That resolution passes also.

16

That takes us through the Report and

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the related resolutions.

18

We are ten minutes ahead of

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schedule. A break was called for, a short break, at

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10:45 to 11:00 which would never have worked anyway.

21

So now we have a break from 10:35 to

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11:00.

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Please do be prepared, however, to

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reassemble at 11 o'clock sharp. We are going to get

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give some awards to very deserving people.

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And, again, thank you very much for
your attention and support.

(Which were all the proceedings at
the Third Session of Council, which concluded at 10:35
a.m.)

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F O U R T H S E S S I O N

Tuesday, May 6, 1997

11:05 a.m.

CHAIRMAN MEDNICK: The next section of our program is one that I really relish because it is the presentation of various well-deserved awards.

But before we get to that, if you would indulge me for just a couple more minutes.

Several of you -- many of you, and I appreciate it very much -- have come up to congratulate me and I'm sure Barry on the vote.

I'm going to turn that around. I think this is a statement for change in momentum and I want you to all congratulate yourselves. So let's do that.

(Applause.)

CHAIRMAN MEDNICK: Now, just quickly, so you know what's going to happen. And it's nothing other than what you were told in March.

The Joint UAA Committee, the Uniform Accountancy Act Committee, NASBA and the Institute, is already at work. They are going to take the report and put it in legislative language form into our Model Bill, the UAA.

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2 Both boards are going to carefully
3 review it and make sure it is totally consistent with
4 the report that you have just approved, and hopefully
5 it will be adopted by both boards in July.

6 At that point we need the hard work,
7 the heavy lifting. And I need your help on all of that
8 also.

9 As a matter of fact, it is very
10 apropos that we are meeting in Washington and spent
11 yesterday learning about the legislative process
12 because that is the next step.

13 We do have a legislative strategy
14 committee chaired by Marty Rosenberg, Executive
15 Director of Illinois, that has met a couple of times
16 already and will be reporting to the Joint Committee
17 on how best to implement this.

18 But Barry and I and members of the
19 Mingle Committee will be visiting state by state. We
20 know that it's going to be different in every state,
21 the lay of the land is different, the political
22 processes are different, and we are not going to get
23 in your way, but we want to be as helpful as possible.

24 And, again, we need your support in
25 working with your State Society Boards and your State

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2 Boards of Accountancy in getting the real heavy
3 lifting done.

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5 This is, again, the special, nice
6 time of the morning. It deals with presentation of
7 awards and I'm going to cover two, the Public Service
8 Award and the Outstanding Educator Award.

8

9 But I understand from Mary Medley of
10 Colorado that there might even be one other award that
11 is going to be granted before then.

11

12 Mary, you want to come up just for a
13 second?

13

14 MS. MARY MEDLEY: Really good news,
15 Barry (handing eye glass case).

15

16 PRESIDENT MELANCON: Thank you,
17 Mary.

17

18 CHAIRMAN MEDNICK: Thank you, Mary.

18

19 Getting serious at this time, it is
20 my pleasure and a deep honor to present the AICPA
21 Public Service Award for 1997.

21

22 The Board of Directors established
23 this award about five years ago to give national
24 recognition to an individual CPA who provided
25 extraordinary public service.

25

As you know, the Institute

2 encourages all CPAs to commit their time and skills
3 and leadership abilities to their respective
4 communities, not only because it benefits the
5 community which it obviously does, but also because it
6 benefits the individual and the profession as well.

7 In this respect, it is interesting
8 to me to note that, according to a recent survey on
9 public service activities among CPAs, AICPAs on
10 average spend about fifty hours a year on community
11 service.

12 This year's finalists for the Public
13 Service Award once again clearly demonstrated the kind
14 of dedication and commitment that are the hallmarks of
15 the profession and deserve our special recognition.

16 The winner, chosen from among the
17 fifty state or fifty-four jurisdiction winners, of the
18 5th - and this is the 5th - Annual AICPA Public
19 Service Award is truly a special individual.

20 David M. Dirks was chosen from among
21 the group and was chosen by a very distinguished panel
22 of judges.

23 They included:

24 Elizabeth Dole, the former U. S.
25 Secretary of Labor and Transportation and President of

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the American Red Cross;

Jody Powell, the former Press Secretary to President Jimmy Carter, who has been staying in a suite next to mine on the twelfth floor, which was an interesting experience the last couple of days. He is currently chairman and CEO of a public affairs and communications firm named Powell Tate;

And Harold Burson, the chairman and founder of Burson-Marsteller.

David is a shareholder in Heider, Tanner & Dirks in Denver, Colorado. He has been in the profession for twenty-seven years and a community-minded volunteer for over thirty.

In recent years, David has focused his attention in the Denver area to, in particular, the revitalization of public education and the maximization of various social service programs.

In this respect, David has taken as his belief that, and these are his words, "one person can make a difference if his efforts are consistent and purposeful." And he's leveraged that even further by constructing bridges for others to follow.

Among other things, David has encouraged coalitions of diverse groups, including

1
2 educators, administrators, parents and business
3 people, to improve public education. And he has also
4 provided leadership and continuity to the Mile High
5 United Way and two of its funded agencies - Human
6 Services, Inc. and Karis Community, Inc. - as they
7 went through difficult periods of transition and
8 growth.

9 Yes, our award recipient this year
10 truly embodies the qualities of integrity and
11 community commitment, the hallmarks of a true
12 professional.

13 My heartiest congratulations to
14 David on this very well-deserved honor.

15 And I am going to ask David to step
16 up and address us.

17 (Standing ovation.)

18 MR. DAVID DIRKS: It's a real lovely
19 glass figure here. I always get a little nervous about
20 glass things because they can drop and break.

21 Bob, thank you for the kind
22 introduction.

23 It's a real pleasure to attend a
24 Meeting of Council again to discuss issues of
25 importance to the profession and rub elbows with its

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leadership.

I must admit though it's nice being here as a guest and not to have to attend all of the sessions, although we did have a very good time last night with "Capitol Steps." They're really great.

There are a number of people I would like to thank.

First, I thank my family, my wife, Laura, who's here today, and our children for supporting my civic and professional activities.

Next, thanks to my partners and the others in our firm for their understanding and indulgence when I spend a fair amount of company time doing volunteer work.

Finally, thanks to my fellow professionals, all of you, for placing such significant and appropriate emphasis on public service, not only through this and the State Society awards, but more importantly by performing hours and hours of public service yourselves.

Recently, a friend pointed out to me that most civic ventures have not just a CPA but usually several CPAs involved with them.

The bottomline is this is what we

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do. It's simply what we do.

Someone once asked me why I spend so much time being involved in civic activities. And I said, well, I guess it's better than hanging out in bars or on golf courses.

Well, that was a rather flippant answer. The truth of the matter is I like bars and golf courses. But I do consider public service sort of an avocation, a hobby if you will, and it's one that provides me a lot of self satisfaction.

My current major cause, as Bob mentioned, is the revitalization of public education. And I would like to put in a brief plug for it.

I am a strong proponent of public education and my belief in the need for a strong public education system has driven me and my volunteer efforts particularly in recent years.

The bad news is that public education is in trouble. But the good news is that it is not in as much trouble as some people would have us think.

Public education is a profoundly important issue. The education of our country's people affects all areas of our society. Free public

1
2 education has helped a tremendous number of us,
3 including my family, to climb the ladder of knowledge
4 and attain the American dream.

5 The public education system will
6 continue to provide that same pathway to the current
7 and future generations or it will fail to provide it
8 to the detriment of us all.

9 Like it or not, the system will
10 teach and train the majority of our future employees,
11 clients and fellow citizens.

12 So I urge everyone, especially we
13 CPAs and other business people, to be involved with
14 public education.

15 The first step is easy. Volunteer at
16 your local public school or school district. They'll
17 be grateful for your help and expertise.

18 I am very, very honored to be here
19 today. This is a special time for me and for my
20 family.

21 The recognition of one's peers and
22 fellow professionals is about the best experience that
23 there is.

24 Thank you for listening and sharing
25 this time with me.

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(Applause.)

CHAIRMAN MEDNICK: Along with the award that David so deservedly has received, I am going to announce that the AICPA will make a contribution in recognition of your achievements and this award to a charity of your choice in your name. And that is also very well deserved.

Your remarks were inspirational. Even more important, you're a wonderful role model for all of us.

Congratulations.

(Applause.)

CHAIRMAN MEDNICK: Now, I have the added honor of being able to present another award, the AICPA Lifetime Achievement Award in Accounting Education.

As we all know, the future of accounting is directly related to the quality of young people entering the profession.

This, in turn, obviously, depends to a very great extent on how well they are prepared in their collegiate and postgraduate education.

As recognition of this truth, the Institute annually selects a member from the academic

1
2 community who best exemplifies this ideal to receive
3 the Outstanding Educator Award.

4 This year the award goes to Anthony
5 T. Krzystofik.

6 And I'm going to ask Anthony to
7 start coming up.

8 Anthony is a CPA in the Commonwealth
9 of Massachusetts. He has been a professor at the
10 University of Massachusetts since 1958, becoming
11 professor emeritus in the Department of Accounting and
12 Information Systems in 1992.

13 Since retiring from a full-time
14 faculty position -- you've had a hard time here, Tony
15 -- Tony has taught in Paris, Athens and Poland and
16 continues to occasionally teach courses at the
17 University of Massachusetts.

18 Throughout his thirty-nine years as
19 an accounting educator, Tony has received numerous
20 recognitions and awards for his excellent teaching,
21 and even more important, his ability to motivate
22 students.

23 Tony has been very active in
24 professional activities at the national and state
25 level. And if you saw his curriculum vitae, you would

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know that it is almost an understatement.

He has served on this Council. He has been a lecturer and discussion leader at AICPA professional development courses. He has chaired our, the Institute's Personal Financial Planning Executive Committee. And he has served on several other Institute committees.

He has also provided leadership on many American Accounting Association activities and has been a chair and member of more than twenty committees at the Massachusetts Society of CPAs.

Tony is the only academic to become President of the society in its almost one hundred year history.

He has also been very active in other professional associations including the Accounting Historians Association.

In addition, Tony has served as a business consultant to not only businesses, but CPA firms and publishers.

With that introduction, it is clearly a great honor for me to award Tony the Lifetime Achievement in Accounting Education Award.

(Applause.)

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MR. ANTHONY KRZYSTOFIK: Thank you, Bob, and thank you too, Members of Council, and the members that are present here.

I want to thank the Mass Society of CPAs for nominating me and to the AICPA for presenting me with this prestigious award.

I am very appreciative of this honor of being included among the very distinguished group of prior recipients. As Dick said a few moments ago, to be honored by your peers is probably the highest honor we can get as a professional.

But, you know, I really have already had a lifetime achievement and award because I was fortunate to be a member of the profession of public accounting and was given the opportunity in my career not only to practice but to teach accounting as a professional career. In reality, I had the best of two worlds.

Most of my career, it's true, has been spent in higher education teaching accounting, but I enjoyed my work. I enjoyed teaching and I enjoyed helping students learn accounting and about the profession of public accounting.

But I also enjoyed staying involved

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with the profession.

I was fortunate to be able to bridge the two, academia and practice. I was able to serve, as Bob said, on a number of professional committees during my academic career.

I believe this helps to bring practice back to the classroom as well as to be able to counsel students on the opportunities that were available to them in public accounting.

I also was pleased the past two days to hear about the plans and the visions for the future of the profession as presented by Bob Elliott. I was especially pleased with that because I see the challenges that are ahead for accounting.

Somebody said to me the past couple of days I wish I was twenty-five years younger so we could get involved in this. And I feel the same way as this individual said to me the other day.

I know there is some concern about the future of the profession and where the talent is going to come from to fill these challenges that have been so wonderfully enunciated here the past few days.

Last week I attended two student award dinners. Our university had its annual Beta

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Alpha Psi induction and after that an awards dinner. I am so pleased that the AICPA has taken over the Beta Alpha Psi to provide the support which they badly needed.

And also last week I attended the Mass Society Annual Recognition Banquet honoring successful CPA candidates.

From these two experiences I believe that accounting is still attracting a very talented and diverse group of students.

I can't say young people because in the group were a lot of individuals who I would call the non-traditional students that maybe you and I were years ago. And I am pleased that they as well are finding careers in public accounting.

And so as you're struggling here on the AICPA Vision Project and the future of it, my little experience indicates that there are a lot of young, not alternative people, who are selecting accounting and you are attracting them.

And I think that the future of this profession is in good hands.

In closing, as an educator, I want to thank the AICPA for the support it has provided to

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me and as well to education.

A few moments ago the speaker told you about public higher education and the need to stay involved. And I feel the same way.

Of course, one last comment. This award -- actually it should be a joint award. Whatever success I might have achieved as an educator during my career could not have been accomplished without, of course, without my family and without the understanding, patience and love of my wife, Peg.

CHAIRMAN MEDNICK: Peg, why don't you stand up.

(Applause.)

CHAIRMAN MEDNICK: Tony is still volunteering for committees here.

We really do appreciate your tremendous dedication and commitment to the profession. It is wonderful. You're a great role model.

MR. ANTHONY KRZYSTOFIK: Thank you.

CHAIRMAN MEDNICK: It is now time for us to turn to the second open forum, second and last open forum of this meeting, before we break for lunch and then the Hill visits.

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2 Anybody who would like to address
3 this group at this time, this is the time to come to
4 the microphone.

5 (No response.)

6 CHAIRMAN MEDNICK: Everybody must
7 be feeling as good as I do.

8 (Laughter.)

9 CHAIRMAN MEDNICK: We have a number
10 of announcements and I'm going to start with the poll
11 results that we promised you on your solutions to the
12 national fiscal crisis.

13 I am looking at them right now on
14 the monitor here. I guess -- I'm not going to analyze
15 them. And, in fact, I would simply like to put them up
16 on the screen. You can examine them for yourself.

17 This is -- can you see it?

18 COUNCIL MEMBERS: No.

19 A COUNCIL MEMBER: Why don't you
20 read it?

21 CHAIRMAN MEDNICK: Okay.

22 These are numbers. And we couldn't
23 get them converted to percentages quickly enough. But
24 I would tell you that this group, and I'm one of the
25 guilty parties, our voting record isn't much better

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than Mike Dunn described for the populace as a whole.

But we had 82 people who did submit ballots.

The first category was raise taxes. Five of the eighty-two said raise individual taxes, eleven said raise corporate taxes.

Reduce discretionary spending:

Defense, 34;

Domestic programs, 54;

International programs, 54.

Reduce entitlements spending:

Social Security -- Warren Rudman would like this -- Social Security, 58;

Medicare, 64;

Medicaid, 60.

Cut taxes:

First is the transfer of family business estate taxes, 63 of those who voted indicated that they should be cut;

57 would cut capital gains;

49 would increase the home office deduction;

And 64 would increase the self-employed health insurance deduction.

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And the final category:
Raise retirement age, reduce
retirement benefits, 38 voted for that.

We must be an older group.

In any case, I think it was fun
doing this. Whether this would balance anything I have
no idea, but we do appreciate your participation.

More important, I hope that the
exercise was helpful to you, particularly in view of
the very thoughtful comments we had from Senator
Rudman at lunch yesterday.

And it is quite possible, as you
also heard, that you will get comments on the new
compromise budget and attempt to balance the budget in
the year 2000.

Now, some administrative
announcements before we move to lunch.

We are going to move to lunch and
then hopefully en masse go up to Capitol Hill.

Please don't forget that tonight we
have a reception for Members of Congress and I think
they're going to enjoy it very much. It is in the
Library of Congress. It's the Madison Building. It's
in the Montpelier Room on the 6th floor from 5:30 to

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We anticipate we will have a number of Congressmen. We will also have a large number of staffers. Please don't discriminate against staffers. You saw the role playing. As a matter of fact, from my own experience, they play a key role in legislative issues and legislative development.

Upon entering the Madison Building you will have to go through security quite similar to the security you went through if you flew here at your airports.

Please be sure to bring your name badges with you since they will be needed for various individuals to identify you. And also we will be taking photographs, and it's easier to identify people in those photographs.

For your information, the members of Congress will be using blue badges. Congressional staff will have yellow badges. There will also be banners indicating geographical locations of the country for use by members of Congress when they're trying to locate their constituents.

So, please make sure you congregate around a banner indicating your geographical location.

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2 Shuttle buses will be running from
3 now until 4:30 p.m. from this hotel to Capitol Hill to
4 take you up to the Hill visits. There will be stops at
5 both the Senate and House office buildings. There are
6 several on both sides.

7 The bus departure location is
8 Pennsylvania Avenue and East Street.

9 At 5:00 p.m., this is after you've
10 made your Hill visits, there will be buses that will
11 start running from the same location to the Madison
12 Building at the Library of Congress for the reception.

13 Buses will depart the Library of
14 Congress after the reception from the Independence
15 Avenue entrance coming back to the hotel between 8:00
16 and 8:30 p.m..

17 And I understand that all of this
18 which I have been telling you is located in your
19 conference information.

20 Also, please don't forget that
21 tomorrow morning we will be starting at 8:15 sharp at
22 which time we have another speaker, a Congressman from
23 Ohio, who will be addressing us. ^

24 At this point, again, I will offer
25 to see if anybody has any last minutes comments or

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observations.

(No response.)

CHAIRMAN MEDNICK: If not, we've
achieved Mike Dunn's description of an excellent
meeting.

We are done early. Please stay for
lunch and then good luck on your visits on the Hill. I
hope you enjoy them.

Thank you.

(Which were all the proceedings at
the Fourth Session of the Council meeting, which
concluded at 11:40 a.m.)

* * *

F I F T H S E S S I O N

Wednesday, May 7, 1997

8:35 a.m.

CHAIRMAN MEDNICK: Good morning,
everyone.

I trust that you all enjoyed your
Hill visits yesterday.

You might be interested to know that
I had five visits scheduled myself both on the House
and Senate side, and I was very non-partisan,
Republicans and Democrats.

And my own personal experience was
that we were received not only very openly but with
great respect. And, of course, that's the kind of
reputation we want on the Hill.

I can tell you, however, that what
thrilled me most is, as I traipsed up and back across
the Capitol, which I did because somehow that's how
mine were scheduled, or I moved from one Senate or
House Office Building to another, virtually everywhere
I went I saw you. Groups of you were literally on
every floor I was on, visiting every delegation that
was near the office I was visiting.

And, quite frankly, it was thrilling

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and something of which I personally am very proud.

So I hope you all thought it was an exciting day and I hope it went well for all of you.

But we do look very much to receiving your feedback on your visits, how they went, and any suggestions you might have to improve our programs in the future.

Also before we start this morning, let me remind you to both complete your Hill visit reporting forms - they are the green forms contained in the back of your participant folder which you received at the beginning of the meeting - and also would you please complete the overall evaluation form for this meeting which is printed on pink paper for Council sessions as well as the Key Person Conference.

We need your feedback, as you can imagine, to enable us to improve future programs and we look forward to receiving that feedback.

It is now my pleasure to introduce our special speaker for this morning.

Congressman Paul Gillmor is currently in his fifth term in the U. S. House of Representatives serving the citizens of Ohio's 5th Congressional District.

1
2 A seasoned political veteran, having
3 personally served in the Ohio Senate for twenty-two
4 years, Representative Gillmor was unanimously elected
5 Republican leader five times, serving as President of
6 the Senate for three terms.

7 Moreover, he is but one-half of a
8 very successful political couple. His wife, Karen, is
9 currently an Ohio State Senator who was selected in
10 1995 as the Outstanding Freshman Legislator in the
11 Country by the National Republicans Legislators
12 Association, all of this, I understand, while raising
13 five children, the last two of which are twins. Very
14 impressive.

15 Of particular importance to us and
16 from the profession's standpoint, Congressman Gillmor
17 is today the Vice Chairman of the powerful House
18 Commerce Committee which has jurisdiction over many of
19 the matters which affect our profession.

20 In this regard, he was one of our
21 earliest and strongest supporters in our successful
22 effort to achieve Federal Securities Litigation Reform
23 in 1995.

24 For this we will be eternally
25 grateful.

1
2 Please join me in welcoming
3 Congressman Paul Gillmor.

4 CONGRESSMAN PAUL GILLMOR: Thank
5 you very much.

6 I am delighted to have the
7 opportunity to be with you this morning.

8 What I want to do is talk about a
9 few of the issues we are dealing with in Congress and
10 then throw it open for questions or whatever you want
11 to get into.

12 And I do appreciate that
13 introduction. That was very nice. It's a lot better
14 than some I've gotten.

15 You know when we go and make
16 speeches, our offices usually send out these long
17 bios, and once in a while you get somebody that reads
18 the whole thing, which wasn't the case here.

19 But I had a Rotary speech in my
20 district. And I thought this guy who was introducing
21 me was going to do that.

22 And I said: "Hey, that's too long,
23 you don't go through all that stuff, the less said the
24 better."

25 So my introduction was: "Today, our

1
2 speaker is Paul Gillmor. The less said about him, the
3 better."

4 (Laughter.)

5 CONGRESSMAN PAUL GILLMOR: But let
6 me commend you, first of all, for being here. I want
7 to commend you for your involvement in the political
8 process and for the things that you are doing.

9 I think if more people in business
10 and in the professions were involved in an active way
11 in government and following the issues, and also even
12 in campaigns, we would get a much better legislative
13 result than what we have now.

14 Now, to some degree when I'm talking
15 to this group, it's a little bit like the minister
16 talking to the choir in church because you are
17 involved at least to some degree and some of you to a
18 great degree or you wouldn't be here.

19 But for you and also for some of
20 your colleagues back home who aren't involved, I think
21 one of the questions you might ask them is: "If not
22 you, who?"

23 In the political arena in government
24 there is going to be somebody pushing for change,
25 pushing for public policies, and they are going to be

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organized and they are going to be working hard.

And if it's not you, and if it's not the people with whom you agree, is it going to be somebody who is causing policies to happen that are in what you think is your best interests, the best interests of your family, your state and your nation, or are you going to have policy results that are not those that you would like to see?

And I was talking to Brian Cooney a little bit about how those in the accounting profession can better communicate with members of Congress.

And the points I want to make on that -- it applies not only to members of Congress. It applies to your State legislators. It applies at the municipal level.

And I think there are basically two ways that you can impact policy.

One, of course, is through the association, through the lobbyists that you have.

And the association is important not just for the lobbying effort that is done through the staff, but also in terms of information in keeping you informed.

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2 Now, one of the advantages that we
3 have as members of Congress is we get to deal with a
4 lot of people and a lot of groups. So you begin to see
5 who is effective and who does a good job and who
6 doesn't.

7 And I have to tell you that AICPA,
8 you ought to be proud of the job they are doing. You
9 are fortunate enough to be represented by one of the
10 most effective groups in Washington. You know, I've
11 worked with John Higginbotham on a number of issues,
12 and Brian Cooney.

13 And over the years we've had a lot
14 of involvement with the Ohio group, Clarke Price and
15 Barb Curtis. Barb and I go back all the way to the
16 time when she was working for the Ohio Senate and I
17 was President of the Senate.

18 So that's one form of influence. But
19 it's not the most important form.

20 The most important and effective
21 form of influence, if you are talking about getting a
22 vote in Congress from your legislator or anywhere else
23 is the grassroots effort. It's you individually.

24 And you have an advantage that the
25 association staff doesn't have. I mean you have a

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vote. You live in somebody's district. You have the ability, if you want to, to be somewhat involved in campaigns. You certainly have the ability to influence others.

And if there is one thing about most politicians, they like to be reelected.

(Laughter.)

CONGRESSMAN PAUL GILLMOR: So when you consider that, you are in a unique position to make a difference.

And members of Congress and other people in public office respond the same way that everybody else does. If you hear from somebody on an issue and it's somebody that you know personally, somebody that you respect or you value their opinion, that is going to have a lot more influence on how you vote than any other source of information you get.

And there are a lot of ways you can be involved. Actually, I think that accounting, you have a unique opportunity, particularly as our campaign laws get more complex and we all have to file these reports. Fortunately, the FEC reports have not gotten as bad as the IRS reports, but they are pretty complex.

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Well, one way you could help in some campaigns is if you wanted to serve as a campaign treasurer.

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Let me talk a little bit about money and political campaigns. Money is important. I mean if you get into a political campaign in this day and age, you got to pay for the television, you got to pay for the radio, you got to pay for the stamps, you got to pay for the printing.

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So raising campaign funds is very important for a candidate to get their message out.

I must say I think from an association point of view, and this applies to any association, it is important to give to those with whom you are philosophically attuned, to those with whom you agree.

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I find in this town there is a tremendous amount of money, political money, that is misdirected or actually wasted.

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I mean too many of the PACs tend to give to somebody even if they don't agree with them, votes against them nine out of ten times, on the theory that after the election, you maybe will get some action or be able to get into their office.

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That's a mistake. You want to elect the kind of people that are attuned to you.

So, you know, if you got an issue coming up and if you contact a legislator and it's somebody that you know personally or you've met and he thinks you know what you're talking about, maybe you have been involved in the campaign, and if the association also helped him, when you got a big issue coming up, if you're the person that calls, that is the most effective tool anywhere in the country in terms of changing a vote.

I've heard an example of what I thought was very effective lobbying in the last session of Congress. And it was on HR 1058. That was the Securities Fraud Class Action Reform.

As you know, the President vetoed that bill. The President vetoed all tort reform bills because he vetoes anything that the Trial Attorneys tell him to veto.

But what was unique about this bill is that veto was overridden. And it takes a two-thirds vote to do it. And that means very strong bipartisan support.

And that happened because of a very

1
2 effective lobbying job done. And I'm not just talking
3 about the Washington lobby. I'm also talking about the
4 grassroots lobby by this group and by a few others
5 that made that happen.

6 Now, we're not done with tort
7 reform. There is a lot more that we need to do in that
8 area.

9 Let me give you one figure. Right
10 now in the United States we spend 2.3 percent of our
11 gross domestic product just for lawyers and litigation
12 expenses.

13 Now, I can talk like this because,
14 you know, I am a recovering lawyer.

15 (Laughter.)

16 CONGRESSMAN PAUL GILLMOR: But I
17 can do these things.

18 But when you look at that, that is
19 more than any other country in the world. And it is a
20 tremendous drain away from productivity in this
21 country.

22 The other thing is that of all the
23 litigation expenses, less than half of the money spent
24 goes to individual plaintiffs, and those are the
25 people for whom in theory all of this is supposed to

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be happening.

We had a hearing last week in the Consumer Protection Subcommittee of the Commerce Committee of which I'm a member. And the chairman of that particular subcommittee, Bill Townsend of Louisiana, went through a whole list of specific cases, but one of which I thought I might relate to you. And I think it points out that, you know, today we do have a crisis in the legal system. We do have a fee system that is spinning out of control. We are getting higher and higher jury verdicts. We're getting profits for lawyers, but where actual consumers are receiving a smaller and smaller percentage of the pie.

He related the case of Dexter Camulevis. Now, Dexter was like many other class action plaintiffs, he was just added to the suit. He didn't bring the suit. He didn't particularly want to be there, but he was added in.

Well, at the conclusion of this case Dexter's lawyers got a settlement that gave the law firm \$8.5 million. And that's a lot of money for the lawyers.

In comparison, Dexter's cut was \$2.19.

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But it gets worse. The multimillion dollar fee that went to the lawyers did not include their expenses, just the contingency fee. So they were able to charge the class action plaintiffs for the extra amount. And in Dexter's case that was \$91.32.

So the first time that Dexter found out about this was when he got his year-end bank statement and there was a miscellaneous deduction of \$89.14 which was the difference between his huge \$2.00 recovery and the expenses.

So those are the kinds of things that cry out for reform. And I hope we are going to be able to do that.

Let me talk about a couple of other issues.

Balancing the budget is certainly a topic on the mind of many people in the American public, and it is now an issue at the forefront of the awareness of the United States Congress.

This realistically has only been an issue in Congress since the 1994 election. And, you know, in the 1994 -- I don't intend to be partisan, but you did have a change in party control and you had a change in the philosophy of the majority of members

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in Congress.

But the 1994 election, we couldn't even get a vote on a balanced budget constitutional amendment; not whether we passed it, couldn't even get a vote.

We did finally get one by a very difficult procedure called the discharge procedure where you got to get more than half of the members to sign a petition and we did get it up for a vote.

But what a difference! In the last two sessions of Congress it has been brought to a vote. Last time we passed it by the required two-thirds in the House. It failed by one vote of getting two-thirds in the Senate.

This year in the Senate it failed by only two votes. Two members of Congress who ran pledging to vote for the balanced budget amendment changed their vote after they got elected. And that's the margin of defeat.

But that's an issue that's going to be coming back.

A lot of people say, well, you can balance the budget without an amendment.

Well, in theory, yes. But, you know,

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2 in the real world Congress hasn't done it for thirty
3 years. It's like an alcoholic. He could stop drinking,
4 but if he hasn't done it for thirty years, it's not
5 likely he's going to do it tomorrow.

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7 You know, most states, forty-
8 five/forty-six, have balance budget amendments in
9 their state constitutions and they work.

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11 We have one in Ohio and I have to
12 tell you that the temptations and the pressures, if
13 you don't have that balanced budget amendment, are
14 very difficult to resist.

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16 I know in our case every year there
17 are always some programs - and a lot of times they are
18 wonderful programs - where you would like to do
19 something. It would be very easy to say, well, let's
20 just put another \$50 million in this program this
21 session, or \$100 million, and we'll make it up next
22 session.

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24 And that's what Congress has been
25 doing. But the next session in making it up simply
26 hasn't happened.

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28 I will point out though the
29 difference, once again, that this new majority in
30 Congress has made. The deficit is less than half, less

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2 than half of what it was before you had a new majority
3 in the Congress.

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Well, what difference does a
5 balanced budget make?

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Well, you know, it's not just
7 because we love an accounting principle, the symmetry
8 of balance. It's because it makes a real difference in
9 the real world.

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For example, economists project that
11 the difference between continual deficits and balance
12 is about two percentage points on the interest rate.

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Now, you take two percentage points
14 and you apply that to business borrowing and what can
15 be done. You take two percentage points and you apply
16 it to your home mortgage or car loan, we're talking
17 real money in the pockets of the American people.

18

Interest on the national debt is now
19 the third largest item in the Federal budget. It's
20 \$250 billion. It's exceeded only by Social Security
21 and National Defense. And next year we're going to be
22 spending more on interest than we spend on National
23 Defense.

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One out of every six dollars
25 collected by the Federal government goes to pay

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2 interest on the deficits that were incurred in the
3 past.

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5 If it were not for those past
6 deficits, we would be operating at a huge surplus
7 today. We could spend more money for all kinds of
8 programs or we could give you a big tax cut and still
9 be in balance if it hadn't been for all of those
10 deficits.

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12 And the other problem is it is
13 severely impairing the ability of government to offer
14 the programs that a lot of us would like to do because
15 when you take one out of six dollars off the table to
16 begin with, it gives you a lot less options.

17

18 You know, as mentioned, we have twin
19 sons that are ten months old. Each one of those boys
20 will in the course of their lifetime - and this is
21 true of any other child born last year - will pay
22 \$187,000 in taxes just to pay interest on the national
23 debt. That's before a penny goes for programs, debt
24 reduction or anything else. That's a huge burden that
25 we've placed on the upcoming generation.

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27 Recently, you saw the announcement
28 of this budget agreement that's been worked out
29 between the leadership in Congress and the President.

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And I strongly support that. I'm for it because we're in a much better position than we were without the agreement.

But I want to make a couple of points about it.

First of all, essentially what happened is the Republicans got less tax cut and less reform in spending than what they wanted, but we got more than what we had before the agreement.

The President got more spending but less additional spending than what he wanted and he had to swallow some tax cuts that he didn't want to do.

Well, is this going to balance the budget in five years? No.

I wish it would, but we are better off with it.

First of all, there are some fairly optimistic projections that were built into this budget agreement that was supposedly going to bring us the balance in five years.

But the other problem is this. You may have a five-year budget agreement and you may have a plan, but Congress only appropriates money on a one-

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year basis.

So Congress is not only going to have to have the fortitude this year and the President to stick to this agreement, but they're going to have to do it five times in a row with all the political pressures that are out there.

I hope it happens, but I'm not going to bet the farm.

The other thing is there are a lot of details that haven't been worked out. This is an agreement just in broad outline.

For example, there is agreement there will be tax relief. There will be a child credit, there will be capital gains, estate tax, some extended IRAs, some credit for college tuition. But none of the details for that are worked out.

I particularly hope we are going to get a capital gains relief. We have in this country the highest taxes on investment of any of the industrialized countries. We are overdue for major relief.

And the estate tax, my preference would be to eliminate the estate tax. You know, we are talking about money that has been accumulated after

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taxes have already been paid.

I don't think that's going to happen. In fact, I know that's not going to happen.

My next choice would be to maybe raise the exemptions and get a reduction in the brackets.

I think what we're likely to end up with is some increase in the exemptions, probably from \$600,000 to \$1,000,000 and that will be phased in over a period of years.

There's also a great deal of sentiment for some kind of family-owned business exemption up to a certain amount in addition to the \$600,000.

I think in one sense that's very good. That's the good news.

The bad news is in your business think about how you're going to define it and how the IRS is going to define it and all the regs. At a time when we want to move to simplicity, that would be laying another layer of complexity on the whole process.

But one reason we need tax relief is because Americans are taxed more today than any time

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in the history of our country.

And tax increases don't solve deficits. The history is, every time Congress has passed a tax increase, they've raised spending by that amount plus a little bit more.

And the average American today has to work, if they have an eight-hour day, two hours and forty-eight minutes just to pay taxes. And that's more than food, clothing and shelter.

And for those of you who keep track of those things, that's up one minute from last year.

So I think that a tax relief is overdue.

Let me just make a couple of other brief comments and then we'll turn it open for questions.

And that is that a lot of the changes that happen in Congress, the most important changes that affect people in their daily lives and over a long period of time aren't the contentious ones that you read on the front page all the time.

I'll give you two examples that are going to change in a major way the way people live and have very important services delivered to them in this

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country. And these are changes that are coming about because of technological changes, not something that Congress or government did. They are changes that have taken place out in our economy and in entrepreneurial America.

For example, the last session of Congress we passed a sweeping reform with the telecommunications law. I think that may in the long run prove to be "the" most important bill of this decade in terms of the impact on the American people.

It is the first rewrite since 1934. And it happened because the technology overtook the law.

You know, back when the laws were written, you had the telephone that you usually had to crank on the telephone. You had radio and that was about it.

And even up until recent years all of the telecommunications were little niches. You had long distance and they didn't get into local, or you had local and they didn't get into long distance. You had broadcast and they stayed in broadcast.

But what happened is the technology says that everybody can get into everybody else's

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2 business. Your cable company could offer you phone
3 service. Your phone company could offer you cable
4 service. Technologically, your utility, your electric
5 utility, could offer you telephone service and cable
6 service.

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And, in fact, in Ohio one of the
major utilities is looking at that very real
possibility.

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Those things couldn't happen under
the old law. So what the bill did last year in a
nutshell was to throw it open so that everybody could
get into everybody else's business.

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That means to you as a business
person, it means to you as a consumer, you are going
to have, as this phases in over the years, a lot more
choices of providers. And when you get greater choices
of providers, you get two things. You get better
service and you get lower prices.

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Let me tell you one story about
technology. And I know you can't equate advances and
progress and productivity in the material world with
those in the human world where you're dealing with
people.

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But an interesting statistic. The

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advance from the vacuum tube to the transistor to the computer chip has resulted in one million fold improvement in productivity in forty years.

Now, if the Federal government had undergone the same rate of improvement over that same period of time, we would be providing the same level of services and programs with only four employees and a budget of \$100,000.

(Laughter.)

CONGRESSMAN PAUL GILLMOR: But it didn't work that way.

The other issue that follows along in this same theme is one we're dealing with now in the Commerce Committee, and it's electricity deregulation.

In a few years you're going to go away from the monopoly system and you're going to go into the system where people are going to be competing to provide you electrical service.

And, once again, more choices, better service, lower prices.

Let me throw it open for questions, but just finish with one more little quote.

I got elected and came to Congress

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2 in 1989. That was the 100th Congress. And Congress was
3 two hundred years old so they had this big celebration
4 and they had this nice program. And I looked at it
5 because I was a new guy.

6 And there was one quote in there
7 that I particularly liked. It was from a foreign
8 visitor to the United States back in the 1830s and it
9 shows how we really haven't changed all that much
10 because he said: Congress is so strange. The man
11 stands up to speak. Nobody listens. Then every
12 disagrees.

13 (Laughter.)

14 CONGRESSMAN PAUL GILLMOR: Let me
15 take your questions.

16 CHAIRMAN MEDNICK: As we move to
17 the question part of the program here, I would ask
18 Jerry Kreger, who is the President of the Ohio
19 Society, to take charge.

20 And we very much appreciate,
21 Congressman, your willingness to accept questions.

22 Jerry.

23 COUNCIL MEMBER JERRY KREGER: Any
24 questions for Congressman Gillmor?

25 CONGRESSMAN PAUL GILLMOR: I

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expressed so much confusion that --

(Laughter.)

A COUNCIL MEMBER: Congressman,
first a slight correction, I think. With all due
respect, you had indicated that the discussion on
family businesses and how it would be determined, that
would be the IRS and we who would determine it.

Really it's Congress that makes the
laws. We just sort of follow you and try to interpret
it.

That was -- it wasn't any other way
other than the fact that a lot of times we in the IRS
are beat up on versus who makes the laws.

But the question. Senator Rudman
addressed us the other day. And it was a very
provocative speech. And one of the things he mentioned
was the fact that in order to really balance the
budget over a long period of time and to get it within
whack, Social Security and other entitlements would
have to be dealt with to the degree he suggested that
there would be a taxation or a lack of Social Security
given to certain people, he said incomes over \$50,000.

How do you think that's going to fly
with Congress?

CONGRESSMAN PAUL GILLMOR: Well,

we've got problems in two major programs. We have

problems in a lot of programs, but particularly two

major entitlement programs, both Medicare and Social

Security.

Regarding the idea of cutting off

Social Security benefits for somebody over a certain

level, I don't support that. I mean Social Security

has tremendous acceptance and support in this country.

And whether this is actuarially accurate -- it is not

-- people perceive of Social Security as a kind of

insurance program to which they have paid in.

Now, we all know the average Social

Security recipient gets a lot more out than what they

ever paid in.

But there is great public

acceptance.

If you turn it into a means tested

program, you basically are turning it into a welfare

program. And we can see how popular welfare programs

are. We just made a major reform in that area.

The second thing is you don't have

to do this to save Social Security.

Now, why are we having problems both

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in Social Security and in Medicare?

There are a number of reasons. But one of them is, and this is the good news, because we are all living longer. Back when the Social Security program went in, there usually was one wage earner in a family and it was a male and they retired at 65 and they were dead at 67.

So, you know, they're not drawing out a lot.

Now, the good news is we are all living longer.

The bad news is, because we're living longer, we are taking a lot more out of the system in relation to what we paid in.

Medicare is going to be bankrupt, the Part A part of Medicare, in the year 2001.

The only way you are going to get a solution to either one of these things is if you got broad bipartisan consensus.

Congress to its credit in the last session tried to deal with the Medicare looming crisis in a responsible way. The President turned it into a political football. And, as a result, you had no Medicare reform.

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Now, part of the budget agreement is that you are going to reduce the rate of growth in Medicare by \$115 billion over the next five years. That's not cut. That's just it might not grow as fast.

But you are going to have to make those kinds of changes. Maybe it will work on a bipartisan basis this year.

What's happened in Medicare is that the system has been growing in terms of expenditures at a rate of about eleven percent a year. That's growing that fast when private health insurance costs were going up six percent. Now private health insurance costs are going up lower.

So, once again, you just have to make some changes that some people won't like, but you don't have to have drastic cuts if you act soon enough and you can save the program.

Social Security starts going into deficit, I forget whether it's 2009 or 2019. And if we don't change anything, the system goes broke in 2029.

But I think we are going have time to make the changes. I think we're going to do it. One of the changes that's already in law is to have a gradual increase in the retirement age. The retirement

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age now is up under current law from 65 to 67.

But you can't take the system and have people pay in at the same level and then draw out for twice as long without having a crisis. So you have to make that kind of adjustment.

And if we act now, you can do it without a Draconian thing.

Social Security is the best deal in the world for people who have been retired from work. You know, the person who retired ten years ago on Social Security got all of their money back with interest in three years.

The person who's twenty-five years old today, and they pay in and then they retire, it will take them eighteen years to get theirs back.

So that's the bad news.

The good news is that indicates there have been some reforms that have taken place.

COUNCIL MEMBER JERRY KREGER: Do we have a question out here?

A COUNCIL MEMBER: Yes.

Congressman, what is your take on cost of living increases and also campaign finance reform in this Congress?

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CONGRESSMAN PAUL GILLMOR: One of the main things that has been talked about in terms of COLAs or Cost of Living increases has been whether the Bureau of Labor Statistics has given us an accurate figure.

I guess the consensus of most of Congress who have looked at that is inflation is overstated. So there has been a push by some to get an adjustment by law, whatever it is, whether it's 4/10ths of a percent or one study said it was 1.1 percent, to just say by law that the cost of living that we pay is going to be X amount less.

I am very much opposed to that. I don't think you ought to -- if you are going to have COLAs, you ought not set them by a political process. To me the way to deal with it is to have the Bureau of Labor Statistics come out with accurate figures.

I mean if other economists can come to a conclusion that it's overstated using those same factors, the Bureau of Labor Statistics can do the same thing.

So that's the way I think COLA ought to be dealt with.

Campaign finance reform; of course,

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what's a reform depends on the eye of the beholder.

I don't think we are going to see major legislation passed in that area because you can't get a bipartisan agreement on it.

I also should point out that something has happened in the last two years that really makes all of the reform proposals that have been talked about over the years kind of out-of-date, like PAC limitations, contribution limits, expenditure limits.

And that's because the Supreme Court has ruled in what's called independent expenditures, that there are basically no limits.

So what that means, you take a special interest group, and the biggest one was labor in the last election, which put over \$35 million in the campaigns, there were a lot of districts in this country where labor spent from one source more than the Republican and Democrat candidates in that district combined raised and spent.

And Congress, probably without a constitutional amendment, has no way to limit that.

So a lot of the old reforms that people talked about, like saying you can't have PAC

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2 money, all that will do is disarm the bona fide
3 candidates, whether they be Republicans or Democrats,
4 and turn the whole system over to the special
5 interests which (a) have very limited reporting
6 requirements and (B) no limitation on what they can
7 do.

8 So that is the first thing that
9 we've got to get a handle on. And it may literally
10 take a constitutional amendment to do it if you are
11 going to have campaign reform that results in fair and
12 competitive elections that aren't for sale.

13 COUNCIL MEMBER JERRY KREGER: Any
14 other questions for the Congressman?

15 A COUNCIL MEMBER: I have a quick
16 question. Will a flat tax proposal hit the floor this
17 year?

18 CONGRESSMAN PAUL GILLMOR: The
19 short answer is no.

20 I think -- one of the things I like
21 about a flat tax is I like the simplicity. I mean the
22 complexity in our tax code, the amount of national
23 wealth that's spent on people keeping records and
24 preparing -- now, I understand that there's some good
25 that comes out of this because there are some fees

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that cover this event. That's the good part of it.

But, you know, if you have a tax system as complex as ours, it's obviously bad.

I don't think you'll have the support for the flat tax. And while I like the simplicity and I like a flat tax in a lot of respects, my big problem is it will only stay flat for about two years and then we'll be back on the same path we're on.

Do you have a follow-up?

A COUNCIL MEMBER: Yes, Congressman.

You said you are a former attorney so perhaps someday you'll fall off the wagon. So I'm going to ask you about a certain article that's in an ABA publication.

It says: Granny's in the clink and her lawyer's there too.

And it says: Buried in the Health Insurance Portability and Accountability Act of 1996 is a provision that could land estate planners and their clients in jail.

And it speaks of Section 217 of the Act which provides criminal penalties for persons who transfer assets for the purpose of qualifying for

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2 Medicaid when the transfer results in the imposition
3 of an ineligibility period.

4 And then it says that, and this is
5 where the attorneys come in, the act also imposes
6 criminal sanctions on anyone who aids and abets the
7 applicant in making these criminal transfers.

8 And it also says that bills have
9 been introduced in both houses of Congress to repeal
10 Section 217.

11 Can you tell us your position on
12 that?

13 CONGRESSMAN PAUL GILLMOR: Well, you
14 know, it's clearly a little Draconian although it was
15 aimed at -- there have been a lot of abuses that have
16 taken place in the system. You're talking about a
17 program to help people with low income. And somebody
18 who disposes of their assets could artificially make
19 themselves low-income so that you and I can support
20 them. A lot of people take offense at that.

21 I think that was, you know, a very
22 Draconian penalty, overdone. I think it's likely to be
23 changed.

24 One of the problems you have in the
25 legislative process, and this is somewhat of an

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example, when you get a major bill, you get all kinds of little things in there.

I shutter every time I vote for a budget bill that comes out of the conference committee that, you know, are usually literally this thick (indicating) because I don't know, and neither does anybody else in Congress in most cases know, what little time bombs are in there that we're going to find out three and six and nine months later according to law.

So hopefully that answers your question.

COUNCIL MEMBER JERRY KREGER: Any other questions for the Congressman?

A COUNCIL MEMBER: First, Congressman, thank you for your support on Securities Tort Reform.

But, second, could you comment on the area of electronic commerce in the Internet and Congress' proven ability to want to regulate that both in terms of content and in terms of security, things like prohibiting the export of high grade cryptographic systems and the clipper chip and so forth?

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So could you comment on Congress and regulation of electronic commerce?

CONGRESSMAN PAUL GILLMOR: Well, I think in terms of the encryption issue, basically what we've done is turn the market over to foreign companies and cut America out of a lot of the worldwide encryption business.

One of the issues in the telecom bill -- and this is an example of all of those little things that get into the bills that maybe shouldn't be there. I talked about what a great bill that was. But it also had some very severe standards with criminal penalties on the type of material that was put on the Internet.

I think a lot of these things are, as a practical matter, going to be unenforceable.

Congress has a tendency to react to pressure groups and if somebody wants to clean things up.

But the technological genie will never go back in the bottle. And I think most of these efforts to regulate and control the Internet are not going to be very effective.

COUNCIL MEMBER JERRY KREGER: Any

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2 other questions for the Congressman?

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(No response.)

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5 COUNCIL MEMBER JERRY KREGER: If
6 not, on behalf of the American Institute of CPAs, I
7 would like to thank Congressman Gillmor. He's been a
8 good friend for our profession and a good friend of
9 the Institute.

9

So let's give him a warm thank you.

10

(Applause.)

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12 CHAIRMAN MEDNICK: We now turn to
13 Item 13 on our agenda, which is the report of the
14 Finance Committee.

14

15 As you all know, the job of
16 monitoring the fiscal affairs of the Institute falls
17 to the Finance Committee of the Board of Directors.

17

18 That Committee is also responsible
19 for overseeing the development of the annual budget
20 which we, as a Council, must approve.

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21 We are indeed fortunate to have
22 Olivia Kirtley serve as Chair of the Finance Committee
23 as she has for the past couple of years as most of you
24 know.

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25 This is her debut since having been
nominated as Vice Chair-Elect for the fiscal 1997-

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1998 year.

And I'm now going to have Olivia report to us both on the interim financial statements for this fiscal year, fiscal 1997, as well as to present the proposed 1998 budget as is presented in your material under Item 13.

Olivia.

MS. OLIVIA KIRTLEY: Thank you, Bob.

Good morning. I'm delighted to be here and present this material to you.

You should all feel very good about the fact this is so late on the program because it means that we have been doing very well.

I would like to present an overview of the material that was sent to you in advance in your packet and just go over the major highlights of the budget for 1998.

If we can get our technology to work, we're going to do this.

(The following accompanied a slide presentation.)

MS. OLIVIA KIRTLEY: Here we go.

First, I'll briefly review how we are doing in the current fiscal year.

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2 For those of you who are new to
3 Council, our fiscal year runs from July 1. And so we
4 are going to briefly review the seven-month results
5 which show that we are doing very well year-to-date.

6 Our budget called for an excess of
7 revenue over expenses of \$2 million for 1997. And as
8 you can see, for the first seven months, we have a
9 very large favorable variance, of almost \$8 million.

10 But before you get too excited about
11 it, let me explain that most of this large variance,
12 almost \$7 million of it, is attributable really to two
13 items, investment income and the timing of expenses.

14 Investment income, the variance on
15 that is over \$4 million, and the timing of our
16 expenses accounts for another \$3 million.

17 We expect that these two variances
18 will be substantially reduced before the end of the
19 year and we are currently forecasting an excess of
20 revenue over expenses of about \$4.5 million, which
21 will exceed our budget about \$2.5 million.

22 Before reviewing the major
23 components of the budget for this year, particularly
24 for new Council Members, I would like to go through
25 what the budget process really is within the

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2 Institute.

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4 The overall budget direction is set
5 by Barry and the senior staff at the Institute. They
6 establish guidelines to ensure that the significant
7 priorities and strategic plan initiatives are being
8 given appropriate attention in our resource
9 allocation.

10 You heard Bob Elliott speak a couple
11 of days ago about redeployment of our resources in
12 order to support our new initiatives. And this is a
13 constant thing that goes on within the budgeting
14 process.

15 Many of the initiatives in the
16 AICPA's budget this year emphasize the changing nature
17 of our profession and the continuation of the plan to
18 achieve the high level of technology that will ensure
19 our being on the leading edge.

20 The budget process really begins in
21 December when the staff teams were asked to prepare
22 their budgets.

23 After the initial team meetings, the
24 budgets were submitted and face-to-face sessions were
25 held with each team by the senior Finance staff.

In March the Finance Committee

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really got their first look at this budget. We have a special meeting to go over the preliminary budget and to give our comments and our input, which was taken back and worked into the budget.

And then the budget was brought back to the Finance Committee and to the full Board in April where it was approved to be recommended to Council today.

To briefly go over the major components that are included in this year's budget, there are no dues increases. This is for the third year in a row. And there will be limited price increases in products and services.

The visioning project is a large part of this budget. It's \$1.4 million. It's spread over many different line items within the budget, but it's a significant portion of this budget.

We also had a \$.5 million for the implementation of Assurance Services.

We have the expansion of the Internet Project.

We have a ten percent increase in our commitment to the image enhancement campaign.

There is a full year of Center for

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Excellence in Financial Management within this budget, and expansion of the TIPS program to all members, and expanded operating hours of the AMA hotline to accommodate our members on the west coast.

As you've heard over the last couple of days, there's increased activities in international accounting issues.

We have the Special Committee on Accreditation of Specialization.

Implementation of the Business Valuation designation.

And the revised state regulation initiative.

Along with Operation Access, including a new One-Stop-Shopping toll-free hotline.

An item that has received much attention during our deliberations as Finance Committee and as the Board is in the area of the provision for unbudgeted projects.

As you can see, this provision is \$1.65 million. We have had this provision over the last two years and, quite frankly, the amount that we provided two years ago in the amount of \$.5 million, in this past year an amount of \$1 million, has really

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2 proven to be inadequate based on everything that is
3 going on in our profession and how quickly we must
4 respond to things that we don't know about today.

5 Everything that we know about today
6 in provided in the various line items within the
7 budget, but there are always things that come up
8 during the year that we must respond to.

9 So the Board and the Finance
10 Committee felt that a provision of this size is
11 absolutely essential in order to have the flexibility
12 to respond to these issues as they come up.

13 And, lastly, but certainly not
14 least, one of the things that the staff does along
15 with Finance Committee and the Board is to make sure
16 that the resources that we are allocating are in
17 support of our strategic initiatives.

18 I'll briefly cover the major budget
19 line items for 1998.

20 Details of the budget and
21 differences between the current year's forecast and
22 the proposed 1998 budget were provided to you in
23 advance of this material.

24 The revenue is budgeted at almost
25 \$137 million when the revenue-producing activities and

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2 the dues are combined, which is about \$3.5 million
3 higher than 1997.

4 While revenue-producing activities
5 are budgeted to be up only 2.6 percent, the gross
6 margin is budgeted to be up 5.5 percent. This is due
7 to the significant improvements that have been made at
8 the Institute over the last couple of years in
9 production cost curtailment efforts from the Process
10 Improvement Program, renegotiation of vendor
11 contracts, non-recurring charges associated with
12 reformatting certain publications, consolidation of
13 Member Service conferences, and product sales mix.

14 The staff that's responsible for the
15 revenue-producing activities under the direction of
16 Chuck Peck and under the supervision that is being
17 provided by Marvin Strait and the CPE Board of
18 Management, they've made significant strides in this
19 area over the last couple of years. And they've been
20 able to deliver the budgeted gross margins. They
21 continue to rationalize programs and costs to improve
22 the profitability in this area.

23 And I think they are certainly to be
24 congratulated for all the improvements that have been
25 made in this area.

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In the area of other income, that includes investment income, member affinity programs, TIPS programs and other member services.

Investment income is budgeted to be at the same level for next year as we are forecasting for the current year, at the \$5 million level.

Member affinity programs, we anticipate almost a half-a-million dollar increase in this area due to new programs and the growth of the current programs that are quite successful.

The TIPS program line reflects a substantial increase due to expanding the service to the entire membership.

On the expense side, expenses are budgeted to increase by \$8.5 million, which is a significant increase, that is being caused obviously by all of the new initiatives that we are trying to fund.

This is about an eight percent increase.

While it is substantial, it is deemed necessary to support the many critical initiatives that we previously discussed. Almost every line item is affected by our plans to execute and

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communicate these new initiatives.

Salaries and benefits are budgeted to increase by about 5 percent due to a combination of normal salary increases and additional staff required to support the new initiatives, including the Visioning Project and Assurance Services.

The most significant percentage increase is in the area of Professional and Commercial Services. This area is up \$2.3 million, and almost \$1 million of this relates directly to the Visioning Project.

Meetings and travel are also budgeted to be up significantly, to increase by \$1 million, which is almost fourteen percent. These additional costs will be required to support the Visioning Project, the Assurance Services, the revised State Regulation Initiative, expanded international activities, member outreach and the increased marketing efforts.

Advertising and promotions are also budgeted to be up a little over a million dollars due to greater budgeted resources for the Image Enhancement Campaign, along with increased commitments to the advertising campaigns of various initiatives

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2 and increased marketing efforts to recruit and retain
3 members.

4 All of this results in the \$8.5
5 million increase in the budgeted expenses for '98
6 which the Finance Committee and the Board consider
7 appropriate and necessary to support the many new
8 initiatives underway at the Institute.

9 Now, briefly, I'll cover the capital
10 budget. It is budgeted at a \$3 million level. This
11 includes resources to meet our need for continued
12 advancement in the use of technology at the Institute,
13 along with capital for normal upgrade and replacement
14 purposes.

15 Overall, this budget reflects excess
16 revenue over expenses of \$300,000 which the Finance
17 Committee and the Board believe is reasonable in light
18 of our current fund balance level and the new
19 strategic initiatives that we are funding for the next
20 fiscal year.

21 To briefly look at our fund balance
22 situation, several years ago the Board set the goal of
23 achieving a fund balance of 20-25% of revenues. And as
24 you can see, this budget would result in a projected
25 fund balance of over \$28 million by the end of fiscal

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1998 which would be almost 21% of annual revenues.

In terms of the voluntary contributions that appear on our dues statements, we propose that the voluntary contributions for the Benevolent Fund, the Foundation, including Minority Initiatives, and the Effective Legislation Committee, would remain the same as 1997.

However, just a point of information. The Board has approved a pilot test of 2000 members at an increased suggested level of contribution to the AICPA Foundation.

This concludes my presentation of the 1998 budget.

Before I take questions, if there are any from the floor, I would like to thank the AICPA staff for their hard work in preparing this budget. You did a terrific job.

And I would like to thank Eileen Miele who is CFO, Donna Borowicz and Dale Atherton particularly for all of their hard work on this budget.

Now I'll be glad to take questions at this time if there are any.

(No response.)

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MS. OLIVIA KIRTLEY: Seeing none, I will turn it over to the Chair to present the resolution to accept the budget.

CHAIRMAN MEDNICK: We want to be easy on Olivia today.

If there are no questions, I will now ask Council to consider the following resolution which I'll read to you in a second, basically to approve the budget for fiscal year 1997-1998.

"RESOLVED: That the proposed budget for the American Institute of Certified Public Accountants for the year 1997-1998, as presented to Council at Item 13, be adopted."

A COUNCIL MEMBER: So move.

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: All in favor please signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any contrary-minded?

(No response.)

CHAIRMAN MEDNICK: Barry and Olivia, you have your budget for next year.

(Applause.)

CHAIRMAN MEDNICK: I would like to take a moment to also express my appreciation as Chair for this year.

This has been a very good year fiscally, much of which is attributed to the fine management of Barry and his entire team, as well as Eileen and her team in terms of accounting for it correctly.

Olivia has been an outstanding Finance Chair. I know because she followed me, and I wish I would have come after her. I would have done a better job myself.

In any case I am now going to ask Olivia to describe a recommendation coming from the Board of Directors calling for certain proposed changes to the Carlson Wagonlit Travel Program.

And at that I think I'm going to sit down.

MS. OLIVIA KIRTLEY: I knew how you all were being very quiet after the first presentation. I think you were waiting for me.

This, of course, is a subject that is near and dear to all of our hearts and has received and generated a tremendous amount of discussion and

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comments over the past two years at both the Board and the Council level.

We have monitored, we have surveyed, and we have listened to all of your comments and concerns while continuously trying to quantify the actual savings being achieved under this program.

This program certainly has achieved cost savings in certain areas with the Institute earning commissions, negotiated discounts, free tickets. And we believe that those items have amounted to savings of a little over \$200,000.

Now, an area that we are not quite so certain about the savings is in the area of ticket prices and savings on tickets.

It has been a lot harder to quantify, and quite frankly, many of you have questioned if we were achieving savings in this area, and many of you have claimed that local agents with local market knowledge could provide lower fares and greater savings for the Institute.

In the materials sent to you in advance of this meeting, you were provided a report that proposed that we change the Carlson Wagonlit Air Travel Program from a mandatory to an optional program

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for members travelling on AICPA business.

Under this proposal the AICPA staff would continue to use Carlson exclusively.

This information describes several important changes in trends which have occurred in the air travel industry since the program was approved by Council two years ago and why we believe that we can achieve the same savings under an optional program.

This optional program would require the AICPA reference number for airline program discounts to be provided by members who decide to book through an agent other than Carlson.

We believe that the only savings that would be reduced would be in the area of commissions. However, it is anticipated that this reduced savings could be potentially offset by greater savings in the area of ticket prices if agents with local market knowledge were used, especially in this time when pricing fares and rules seem to change by the moment.

We also want to be sensitive to you and to all of the volunteers serving the AICPA for your convenience, and we hope that by providing this alternative we can minimize the service

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2 dissatisfaction and can maximize the travel cost
3 savings to the Institute.

4 I would like to thank Ed Niemiec in
5 particular for all of the hard work that he has done
6 in this area. We have come to call him Ed the
7 Braveheart because every time he came to a Board
8 meeting to talk about this subject, he was the one
9 that really took the heat on this particular issue.
10 And he has done a terrific job.

11 I'd be glad to take any questions at
12 this time before I turn it over to the Chair to
13 present the resolution.

14 (No response.)

15 CHAIRMAN MEDNICK: This is one you
16 want to vote on I'm sure.

17 No questions. Let me read the
18 following resolution to modify the Carlson Wagonlit
19 Travel Program.

20 "RESOLVED: That members will no
21 longer be required to book their air travel through
22 the AICPA's designated travel agent in order to
23 receive reimbursement for travel expenses."

24 All in favor signify by saying
25 "aye."

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(Chorus of "ayes.")

CHAIRMAN MEDNICK: Dare I ask, any
contrary-minded?

(No response.)

CHAIRMAN MEDNICK: The "ayes" have
it and the resolution passes.

Olivia, thank you very much.

(Applause.)

CHAIRMAN MEDNICK: We are now
scheduled to take a break. We have about a half-hour
to ten o'clock. Please do try to be back at ten
o'clock. I'm going to try to start at ten o'clock
sharp.

Thank you very much.

(Which were all the proceedings at
the Fifth Session of Council, which concluded at 9:30
o'clock a.m.)

* * *

S I X T H S E S S I O N

Wednesday, May 7, 1997

10:00 a.m.

CHAIRMAN MEDNICK: Before we get to agenda Item 14 I've had a request from John Eads -- actually this is about the fourth or fifth time he has made the request to me. I think I am going to have to honor it.

So John is going to take the microphone here, and Barry and I are going to duck.

COUNCIL MEMBER JOHN EADS: You know when you're not supposed to be at the microphone when they don't let it come on.

The Texas delegation has been talking to some of the people about the picture that I happened to be fortunate enough to take the other night with our most distinguished members -- I should say extinguished guests up there at the head table.

However, there were a few comments made that I thought we should pass on to everyone.

Some said that this picture we have, that we will talk about in a few moments, stamp this picture as "Roadkill on the Highway of Change" in the AICPA.

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2 Some said it's looked it's the
3 result of a visioning process.

4 Some even said, I don't really
5 understand this, we'll have to ask Barry if he can
6 explain this, refer to the Pierre & Boudreau
7 checklist.

8 And then somebody else that these
9 are the Council steps to leadership in the AICPA.

10 And then another comment that I
11 thought was appropriate, but then I had some second
12 thoughts, is use the picture as the next pin ad in the
13 image campaign. On second thought, don't do that.

14 I'm sure any of us here can figure
15 out what we would like to do with these pictures from
16 these two CPA comics up there. I say that loosely, of
17 course.

18 However, there are a number of
19 worthwhile CPA charities that everyone knows that are
20 available. In order to prevent the many, many requests
21 I've already had and orders placed for a free picture
22 and negative to be published in every single State and
23 possession's magazine, it has been suggested that the
24 two leaders would kindly offer a donation to the AICPA
25 Foundation or something to have the security of all of

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these negatives.

Of course, that's just a suggestion
you understand.

Therefore, we're open to any
suggestions from the audience before I will turn it
back over to Bob Mednick.

(Laughter and applause.)

CHAIRMAN MEDNICK: Actually, what
John probably doesn't know is that, in addition to
this photograph, it appears we may have also been
captured on the video.

So Barry was very, very anxious to
show it to Patty. And although she had to leave early,
he asked for a copy to do so, the original.

Thank you, John. It was fun.

You know, the agency we used to hire
the Clinton look-alike actually provided the two
individuals that you thought were Barry and I.

(Laughter and applause.)

CHAIRMAN MEDNICK: It's kind of
apropos that the next item on the agenda is the image
campaign.

(Laughter.)

CHAIRMAN MEDNICK: Anyway, it says

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here I would now like to turn to Item 14 on the agenda, the image enhancement program.

When the AICPA image enhancement campaign was developed a couple of years ago, you probably recall that the AICPA leadership promised that we would put in place a program to evaluate the effectiveness of the campaign.

While the Institute's campaign continues to receive favorable comments, the research firm of Audits & Surveys Worldwide was engaged once again to conduct tracking research to statistically determine the results of our effort.

We have with us today Sol Dutka, and I'm going to ask Sol to start coming forward to the podium, who is CEO of Audits & Surveys Worldwide, as well as Ann Axelrod, who the Vice President on our project.

They will present to you a brief summary of the major findings of the second phase of this tracking program.

Would you please welcome Sol Dutka and Ann Axelrod.

(Applause.)

MR. SOL DUTKA: As you can see

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2 right off I start from the bottom of the "Barron"
3 because we're talking about your image.

4 And obviously we've added the word
5 enhancement and they're confused a lot, by the way.

6 Lastly, given the introduction by
7 the gentleman from Texas, I was a little concerned
8 with the old adage that a picture is worth a thousand
9 words. And I still haven't seen the picture.

10 (Laughter.)

11 MR. SOL DUTKA: But this is a heck
12 of a way to introduce a serious topic dealing with
13 numbers. And I have been on a losing streak in that
14 regard.

15 I just gave a paper at the
16 International Statistical Institute in the
17 Philippines. And it was a good technical paper. And at
18 the end of it one of the professors from the local
19 university came up and English was not her first
20 language, and she said, "That paper was superfluous."

21 (Laughter.)

22 MR. SOL DUTKA: She said, "May I
23 have a copy?"

24 And I, you know, kind of was very
25 thankful that somebody asked for it. And I said, "No,

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2 I only operate from notes and they would probably be
3 published posthumously."

4 And she said, "I can hardly wait."

5 Now, we are very serious. Is that
6 clear?

7 The presentation will contain a view
8 of what the objectives were for the 1996-'97 campaign
9 and we'll recall a description of what it was, how we
10 evaluated it, what some of the findings were in the
11 basic survey, and then some additions to it such as
12 the State Society participation, the PFS pilot
13 advertising.

14 And then I would like to talk about
15 where we've been and where we might go.

16 Let's take a look at what the
17 objectives were.

18 We want to raise the bar among the
19 members. And I'm very timorous about using the word
20 "bar." It seems that we have an early one already.

21 We are talking about staying
22 relevant to what has been happening.

23 Adding value to the CPA;

24 And being competitive.

25 And I use the words either we do it

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or someone else will.

The message we want to communicate is that you do more than tax and audit work, that you offer a wide range of financial services to both businesses and individuals and who have training in those services, and as CPAs offer honor, independent and objective insight.

Let's talk a little about the campaign itself.

It was executed by Hill Holliday who provided the stand-ins for your executives over here on my left.

It ran for six months, from October '96 through March '97. And it included print, TV and radio sponsored by many of the State Societies.

This is what the TV medium looked like.

These were the insertions in the print publications.

And let me just call your attention to some of the changes.

The '96 campaign stressed the role of CPAs as business advisors and all the things that they might do to help in a business.

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While the '97 campaign focused on CPAs as business advisors, it had basically three areas that it emphasized: strategic planning, risk management, information systems and technology assessment, and objectivity and integrity.

Both campaigns, however, included retirement planning.

You continued with the same tag lines and they were "They see more than numbers, they see opportunities," "The CPA, never underestimate the value."

It is critical to understand what the advertising climate is like in terms of, again, your share of voice. And that's a term we're going to be using throughout this presentation.

Spending by major advertisers in the financial services area was up dramatically in 1996-'97, an increase of almost forty-four percent.

Contrast that with where we were. We increased our expenditure, but not at the same level.

And here's where I indicate that we have an issue about share of voice. And how we overcome share of voice is something we will be talking about subsequently.

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How did we evaluate the campaign?

Essentially pretty much the way we have done it in the past. We used the identical instrument. We purchased the same list of key decisionmakers from Dun & Bradstreet. We sent executives letters alerting them to the phone call that we were going to make requesting their cooperation.

The purpose of the research was not revealed to the respondents, nor to the executive interviewers who interviewed them.

The interview lasted about twelve to fifteen minutes and, by the way, we made appointments to make sure that if they were busy, tell us when you would be -- have some easier and freer time.

And the field work was conducted from March 3rd through April 14th.

These were the key decisionmakers that we talked to, the CEOs, the COOs, all people involved in the financial decisionmaking in their companies.

The distribution of the interviews were broken by five company sizes with equal yields from each and then reweighted back to reflect the overall target universe.

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2 What were the three questions we
3 sought to measure?

4 We had a question, we said what type
5 of professional, given a series of professional that
6 you compete with, would you choose to perform various
7 business functions.

8 What type of professional would you
9 choose to perform various personal financial services?

10 And then the image, what type of
11 professional is best described by a variety of
12 different statements.

13 And these fifty image items in this
14 last criterion were then included as the primary
15 measure.

16 We broke them into eleven
17 categories. The three in the middle - not just number
18 crunchers, objectivity and integrity, strategic
19 planning/consulting information, communications
20 technology, systems consulting - these were the three
21 emphasized portions of your campaign during '96-'97.

22 We then went to the question, which
23 of these professionals can perform this particular
24 function best: CPAs, bankers, lawyers, stockbrokers,
25 other financial service professionals, none of these.

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And if you think about it, if these were random, it would make no difference to people, then presumably you would get a quantity of about sixteen percent responding for each of these.

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So what we'll be talking about, as you'll see the subsequent data, is not only the change, but also the level at which you operate.

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What were some of the research findings?

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Although the campaign resulted in positive movement with a number of the categories, overall it did not sustain the image level generated last year.

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Interesting point, the next one.

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Those people who were exposed to the campaign, were involved in the media, they became significantly more favorable to CPAs.

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And the key messages were the messages they took back: not just number crunchers, objectivity and integrity.

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There were some regional differences. And you'll see that the regional differences were related to greater exposure to TV and greater exposure to print advertising.

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What did we see?

We see a level at about fifty percent for all of the image items grouped together, all aggregated. It has not changed significantly since the benchmark, but it did not maintain the level that we achieved last year.

Back to share of voice.

There were certain image areas which showed significant positive movement. And if you take a look, you see the trend of benefits and compensation, objectivity and integrity, retirement planning at a lower level but still moving up - and that was something which was focused in both campaigns.

Let's examine some of the components of benefits/compensation.

And here again you see some movement and the category "average" itself moved on up.

Objectivity and integrity, this is the cornerstone of your business.

In each of these components, and we added two more, what you see is we at least have maintained on an overall basis where we -- at least a significant level higher than what we were in the

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2 benchmark, but not maintained the level we were at
3 last time around.

4 Retirement planning, again, some
5 significant increases for the campaign itself.

6 Profitability and cost reduction.

7 Here we have some declines. And if
8 you examine them, you see that the image has declined
9 since the benchmark in these two categories:
10 contribution to profitability, they were stressed in
11 1996, but we did not stress them in 1997.

12 Monitoring, analyzing and
13 forecasting business trends; again, a subject which we
14 emphasized in 1996 but not during the current
15 campaign.

16 Now, kind of a summary issue.

17 Did the campaign reach the target
18 audience? How do we measure that?

19 We measured publication readership,
20 not only reached but also frequency, the extent of
21 regular TV watching and some kind of measurement of
22 actual readership or viewership by asking the
23 respondents to recall some element in the campaign.

24 Did the campaign reach the target
25 audience?

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What you find is, among those people who were exposed to the campaign, you had significantly favorable effects. The overall image of the CPAs was sustained and the image in the key campaign areas, the feedback on what you said, were significantly higher.

What does it add up to?

The campaign is on target. We are saying the salient things, but the issue then becomes share of voice.

Are we reaching a wide enough portion of our target audience?

Look at the change among publication readers.

The heavy readers move from 49 to 50 to 54.

Look what happens with non-readers. Non-readers back to the level of the benchmark.

Look at what happens to objectivity and integrity among heavy publication readers, those people who were exposed significantly to our publications, and retirement planning, benefits and compensation, strategic planning and consulting, savings and investment consulting.

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2 An image carries over on many, many
3 different items. If it's positive, there is an
4 overflow which benefits you.

5 Tax strategies obviously fixed at a
6 high level.

7 And you see many, many more of these
8 relatively high levels.

9 Then we asked about the overall
10 image of CPAs who were exposed -- I mean among the
11 target market exposed to the television ads.

12 It continues to be strong. But take
13 a look at the group who are were not exposed to the
14 TV. Went down to 40; we maintained ourselves at 51
15 among those people who were exposed to television.

16 There is no question that television
17 is a significant medium. There is no question about
18 the artistry of the campaign that you have.

19 Look at the changes in some of the
20 critical image items.

21 Benefits and compensation,
22 retirement planning, not just number crunchers,
23 objectivity and integrity. And I'm comparing these
24 against the benchmark.

25 And if you look through here, again

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you see relatively high level on tax strategies and advice, contribute to profitability and cost reductions, and in each of these other areas.

We then said: okay, you don't deal with one medium by itself, they can be attendant to two media. And so what's the overall level of campaign exposure to both print and TV and how does it affect their image of CPAs?

And I would like to call your attention to high level of campaign exposure and move it across from left to right.

Look at the item, not just number crunchers. It moves from 51 among the high to 48 to 39.

Objectivity and integrity, 56, 52 to 33.

Information, communications and technology, 35, 28, 15.

And on the overall average basis, high level of campaign exposure, meaning the interrelationship between both TV and publications, yields you 56 to 35.

And here we are talking about plain recall. And you might take a look at the column on

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your left, recall a campaign element, versus no recall in terms of the image of CPAs.

And take a look again at not just number crunchers. We run from 58 to 45.

In objectivity and integrity we run from 60 to 48.

And then in information, communications and technology, from 38 to 25.

I said to you that we were talking about aggregate findings. We tried to disaggregate them regionally.

And what do you find?

There are substantial gains in the northeast and the image in the south has declined somewhat in terms of the image overall of CPAs.

If you cross tabulate that by exposure to advertising:

Look at the northeast, exposed to TV 79, south 65;

No television exposure, 21 for the northeast and for the south 35.

Remember what we've just indicated was the impact of TV, and now you see it is also a function of the exposure to TV.

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What about radio? Operates in exactly the same fashion.

Exposed in the northeast versus the south, with no radio exposure at 11 percent and 33 in the south.

All right.

Put them all together - radio, TV, publications - and what do you have?

No exposure in the northeast at 4 percent, no exposure in the south at 23 percent.

We move ahead.

Can they recall? And the recall again is highest as you see here for TV. TV is an effective medium of your campaign. It's obviously enhanced by the print, radio and whatever else you do.

We are talking about, has the image significantly increased among readers of the campaign publication and viewers of campaign television.

And when you combine print and TV, you have the highest yields.

Let's talk a little bit about state participation.

We looked at some of the impact of the state radio participation. And what you find is,

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compared to the benchmark, those who were exposed to radio significantly increased their image of CPAs in terms of not just number crunchers, and objectivity and integrity. Without the radio exposure, you had a decline in the not just number crunchers and in the objectivity and in the integrity.

Break apart the not just number crunchers into its components and you see again, almost without exception, you had significant gains in those people who were exposed to radio and some significant declines in those who were not exposed to the radio campaigns.

We did a pilot program on your personal financial specialist. And this is what it looked like with the names of the participating firms on the other side of the ad.

We ran two-page print ads in the February and the March issue of Worth and Money magazines. And these were the bench data, the benchmark data that we collected.

We had about seven percent who claim to be frequent readers of Money or Worth.

And what you see, again, is, among the readers - contrast the readers versus non-readers

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in terms of Certified Public Accountant with a personal financial specialist designation. Readers of Money and Worth are more likely to be aware of the PFS designation.

We then asked them a similar kind of question: what type of professional would you choose to perform various financial services. And they had these choices, five of them.

It's a new designation, but again a relatively acceptable level at providing you with advice that will help meet your financial goals for the CPA PFS designation, and helps minimize taxes associated with investments at twenty-seven percent.

We then said, okay, are people familiar with the CPA PFS designation, those who perhaps have used them, what about their image of CPAs.

And what you see here is that there is a gradual growth in terms of the image of CPAs among those people who are knowledgeable about the PFS designation as well as those who have used it.

Where are we?

As you see, the overall image of CPAs has become far more favorable among the targeted

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executives exposed to the advertising. The advertising does work.

Reach is an issue. Share of voice is an issue.

They play back the not just number crunchers, and the objectivity and integrity. These were the messages we sent out.

State Society participation helps, and the PFS indicates that that might help as well.

However, I call your attention to the last line: more needs to be done. The campaign does well in spite of a relatively small budget. We must make up in uniqueness and differentiation what we lack in share of voice.

If you want to have your message heard, it's like a needle in the haystack. You either remove some of the hay - we can't do that - or you implant more needles. You'll increase the probability of finding it.

We need to increase our share of voice if you take a look at what the other financial services are doing.

We need to have more executives exposed more frequently to our messages. We have to be

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smarter and sharper. We need to target our media. We need to seek media where we might be somewhat unique or where we may have some disproportionate value in terms of exposure, leadership or saliency.

Continuity in advertising is critical. Advertising or communication is like learning. And the one thing about learning is the opposite side of learning is forgetting. You need continuity.

And it was interesting. When we were preparing this, they had a redo of Patton. And there was a magnificent remark that he made. He had, you know, moved ahead on into Germany. And there's the scene, if you remember, in the wine cellar.

And they say: George, you know, you've outstripped your supplies, why don't you pull back so that we can catch up with you.

And then he said something very memorable. He said: I don't want to pay for the same piece of real estate twice.

And that's what you do each time you start something, you move it along, and then you stop, and then you have to recapture it the next time around.

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We must raise the bar among our members. We need to add value to the CPA. We have to stay relevant. And in a technological climate we have to be as knowledgeable and even more so than our clients about new technologies and new techniques.

New technologies are designed to do things faster, better and less expensively. Those are some of the things that you do. And this is the way you are also going to help your client.

How do we summarize it further?

At this stage, and it's an early stage, the campaign is doing what it is supposed to be doing. It is establishing the presence of CPAs. And it's a meaningful presence.

We have an acceptable image, but you have to constantly raise it and refurbish it and revitalize it.

You have to continue pushing away at the fact that CPAs are more than just number crunchers and they can do many other services.

Down the road, as the campaign matures, we are going to seek some of these specific messages, because if we don't, somebody else will.

Thank you very much.

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(Applause.)

CHAIRMAN MEDNICK: Do we have any questions of Mr. Dutka?

Do we need more money in our budget?

(No response.)

CHAIRMAN MEDNICK: Thank you very much.

Unless -- I'm sorry. Yes.

COUNCIL MEMBER KEVIN SIMISTER: My name is Kevin Simister. I'm from Utah.

I have a couple of questions I didn't gather from your remarks.

What's the margin of error in this survey?

MR. SOL DUTKA: Again, where you saw the asterisk, those were statistically significant.

So what you look for is statistical significance in this case at the .05 level of significance and you also look for the significance of trends.

COUNCIL MEMBER KEVIN SIMISTER: Yes. I wondered. Because it's a very small survey.

MR. SOL DUTKA: It's a very small

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survey. But, remember, the size is not the only function of statistical sampling error. It's also the variance.

This is a very homogeneous group that you're talking to. Okay?

COUNCIL MEMBER KEVIN SIMISTER: The other thing that I wondered is, you made a lot -- a big point about the issue of voice. And I didn't gather whether we were talking all advertisers or just specifically financial advertisers.

MR. SOL DUTKA: We were talking about financial advertising.

COUNCIL MEMBER KEVIN SIMISTER: Okay.

MR. SOL DUTKA: So that our share of voice, you know, was (indicating) as opposed to (indicating).

COUNCIL MEMBER KEVIN SIMISTER: The other thing that I wonder about, I know we struggled with this issue in Utah as well. And we found it a lot more useful to measure these trends over a longer period of time.

And I don't want to get too exercised about the changes from year to year. For

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2 example, these are up and down, and some of your
3 numbers were up for both readers and non-readers and
4 then down for both readers and non-readers. So I
5 wonder whether we're really measuring changes in
6 impulses or attitudes. We need to be aiming for the
7 attitude change.

8 MR. SOL DUTKA: I agree, and also
9 the behavioral change.

10 COUNCIL MEMBER KEVIN SIMISTER:

11 Great. That's what I wondered about.

12 MR. SOL DUTKA: Any other question?

13 CHAIRMAN MEDNICK: Thanks for the
14 question.

15 Any other questions?

16 (No response.)

17 MR. SOL DUTKA: Thank you, again.

18 CHAIRMAN MEDNICK: If not, our
19 thanks to Sol Dutka and Ann Axelrod. We appreciate
20 your being with us.

21 (Applause.)

22 CHAIRMAN MEDNICK: We are going to
23 item 15, which is, as you know, an Assurance Services
24 update.

25 In this respect I doubt any of you

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need to be reminded of the fantastic job that was done by the Special Committee on Assurance Services chaired by Bob Elliott in moving the profession into this potentially very rewarding new area of practice.

In fact, the standing ovation at the end of the presentation made by Bob and his fellow committee members, Harold Monk, George Lewis, Ev Johnson and Don Pallais, at the Fall Council meeting in Chicago, speaks for itself.

As you know, I have appointed a new Standing Assurance Services Committee to continue the work of the Special Committee and move forward with its implementation efforts.

Ron Cohen, my immediate predecessor, has agreed to and, in fact, is chairing this ongoing committee.

I am now going to ask Ron to give you a brief update and then he will introduce Ev Johnson who is sitting right next to him.

Thanks, Ron.

MR. RON COHEN: Thank you, Bob.

What I would like to do this morning is to give you just a quick update on what the Assurance Services Committee has been up to since its

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2 formation.

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We had our first meeting, which was really a hand-off meeting from the Special Committee, on February 20th. And while we refer to it as a hand-off committee, I kind of feel it more as a hand-on committee. I feel Bob Elliott's hand in the middle of my back as we move forward here.

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But we are moving forward. We had our first initial meeting in March, the end of March, and plan to meet about every two months to keep the momentum going.

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Just to give you a quick reminder of some of the things that I'm sure most of you have seen before.

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The definition of Assurance Services: independent, professional services that improve the quality of information or its context for decisionmakers.

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I'm sure, as I say, you have all seen it before. You will probably see this definition again.

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And, again, to remind you the Assurance Services are a broad range of services covering both attestation services that we are

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2 familiar with as well as services dealing with
3 relevance, with systems assurance and navigation
4 services and context services.

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6 The charge of the committee is to
7 identify, to develop and to communicate new assurance
8 opportunities for our members and also to develop
9 and/or work with other senior committees to formulate
10 performance standards.

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12 The committee members of the
13 Assurance Services Committee, Bob Bunting, who is
14 carryover from the Special Committee, Ev Johnson, who
15 also worked on the Task Force of the Special
16 Committee, Debbie Lambert, Al Mattia, Kirk Miller, Don
17 Pallais also from the Special Committee, Steve Samek,
18 Gordon Viere, Bob Zeibig, Bill Zimmerman, and our new
19 AICPA Director, Casey Bennett, who really has provided
20 a tremendous amount of support and has hit the ground
21 running in terms of keeping the committee moving
22 forward.

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24 The strategies that the Assurance
25 Services Committee is pursuing:

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27 One, serve the needs of individual
28 decisionmakers;

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30 Two, root the measurement criteria

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in the ultimate customer needs.

And the emphasis in both of these is really decisionmaker or the user of our information, of these services.

To brand these new services as CPA services.

Again, as Bob Elliott has said before, if you own the scorecard, then you can keep it and sell the scores and that is really what we want to do.

To reduce the service time to market. We've heard throughout this meeting the need of speed to market and we are certainly trying to keep pace with the rapid changes that are taking place in the marketplace that impact what we do.

To use technology to increase value, to decrease cost.

And to build feedback groups into service design and into service delivery.

Our approach is to monitor the environment, to identify the new services, some of which we will hand off to other groups within the Institute - the Tax Division or the MCS Division.

We'll form task forces to pursue

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some of these new services and then supervise the portfolio of services that we come up with.

The task force that is furthest along really in their work is the Electronic Commerce Task Force, which Ev Johnson heads up. And this task force really has just done a fantastic job of identifying the service and moving toward market.

And at this point I would like to have Ev tell you what the Electronic Commerce Task Force is up to at this point.

Ev.

(Applause.)

MR. EV JOHNSON: Thank you, Ron.

It's my pleasure to give you an update on the progress that we are making in this what I hope will be the first of the new services rolled out through the new Assurance Services Committee.

A little bit of background.

This is one of several service lines that we are sponsoring with the Canadian Institute of Chartered Accountants. So we have on the task force both Canadian and AICPA members. And, in fact, the staff support is coming out of the Canadian Institute and it really has been terrific working with the

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Canadians on this.

I think they are just as excited about the assurance services area as we are and particularly this new initiative.

We had a dual focus.

One is to build the practice for the profession.

And the second is to promulgate some user-oriented measurement criteria for electronic commerce, something we call CISEC - we all love acronyms - this is, Criteria for Integrity and Security in Electronic Commerce, CISEC. That's an operating name. We have to see if we can get that officially trademarked or whatever the right to protection is for it.

But that's the name that we are using for the criteria that we are currently developing.

And as Ron mentioned, timing. We are on track, I believe, to have a new service offering out by this summer and having our fellow professionals delivering the service summer/fall of '97.

So let me give you a little bit more background on what we are doing.

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We started out looking at the range of services that we could provide around electronic commerce. We said we could provide assurance about electronic business transactions, both business to consumer and business to business.

We could provide assurance about the tools that are used for electronic commerce, things like the browsers that those of you who surf the web use. They all have features which contribute to integrity and security in a good processing environment.

The server that you are dealing with on the other end, that needs to be secured. It needs to have high integrity. We could provide assurance about that.

We could provide assurance about some of the security tools or the encryption tools.

We could also move on and provide assurance about some of the Internet service providers: the American Online's, the Compuserve's, the Netcom's and people like that that actually provide the Internet services that you connect to.

There is also a growing category of service providers around the Internet, around

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2 electronic commerce, that collectively are operating
3 under the name of trusted third parties. These are
4 people who might manage encryption keys and that sort
5 of thing for you. And, again, this is an area where we
6 might provide some assurance.

7 But where do we focus?

8 We started in by focusing on the
9 electronic business transactions, or doing business
10 electronically, if you want to think of it that way.

11 And we thought this was probably the
12 best area to start for a number of reasons.

13 And within that we chose the
14 business to consumer segment. And we chose it for
15 several reasons.

16 One, I think we got a real
17 contribution to make. There is a lot of opportunity to
18 do business on the Internet, on the World Wide Web.
19 And people are really reluctant to do that.

20 There was one study that said 94% of
21 the people who use the Internet would not give
22 personal information such as information about retail,
23 medical, financial information, including a credit
24 card number, to firms that they had no prior dealing
25 with, which is a lot of what you might be dealing with

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over the Internet.

And forty to fifty percent of those people would be more likely to do that if they had some assurance about how that information was handled, how it was protected.

So there is a real opportunity I think for us to make a difference in a segment of business. We might really help promote the growth of this area of the marketplace.

There is also a window of opportunity I believe associated with the business to consumer piece. We use the analogy of the automatic teller machines. You remember when they first came out - oh, I don't know, a number years ago now - a lot of people were reluctant to have them connected to their bank accounts. People didn't want any access to their bank account; or if they had the access, they were reluctant to use them. They weren't just sure how this was going to work. They didn't want people to be able to get in and withdraw funds.

And there was a lot of uncertainty and there was a lot of concern about it.

And had we had this sort of initiative back ten/fifteen years ago when the ATM

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process was getting started, we might have had an opportunity to provide some assurance services around automatic teller machines.

But that opportunity has gone now. We probably couldn't sell that service because consumers are a lot more comfortable dealing with automatic teller machines. The fears have gone away.

I think the electronic commerce area, particularly where the consumers are involved, is another one of these. If we don't start providing this assurance soon, the window of opportunity will pass.

If we start providing it quickly, we will have a service that will probably endure, just as if we would had an assurance service around automatic teller machines, nobody would dare stop having that service.

So there is a window of opportunity. It's one we thought we could gear up for quickly. The marketplace is pretty well defined.

So I think this is the area that we are moving forward with and these are the reasons why we moved forward with it.

All right. Where are we going?

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What's the general direction that we are moving in this area?

If you talk about an assurance report and you've ever been on the World Wide Web, it's very graphical. It needs to be eye-catching. It needs to kind of communicate a message graphically.

And what we're doing in essence would be to provide assurance about things that are happening on a web page. We need to do all of this and hopefully the goal was to keep it within the existing AICPA and Canadian Institute standards.

Immediately, we determined that this was not just a United States issue or a North American issue. The world wide web is really -- it's gotten the word in it, world - it's global. So we would have to have something that had global recognition.

So we wanted to move forward with an approach that we could get our colleagues in other countries involved with and have one recognized assurance process around the world.

And we've decided on a seal of assurance approach.

Let me talk a little bit more about that.

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The seal of assurance would be similar to the Good Housekeeping seal. It would be performed under the AICPA attest standards, and in Canada their equivalent set of standards which they call the assurance standards.

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I mentioned the CISEC criteria. A web site would have to pass all of the CISEC criteria to be entitled to get the seal.

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We would trademark or otherwise protect this seal and Institute's legal counsel is looking into the right and best way to protect that right now.

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And we would license it to other professional bodies internationally so that they would use the seal using the same criteria, using the same sort of equivalent standards that we would have so we would retain the value of the seal on a global basis.

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And what we are calling it is WebAssure. Again, that's an operating name, assuming we can protect that.

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What is WebAssure?

Again, WebAssure would be a professionalized seal. It would be the profession's seal. It would be awarded by a CPA after completing an

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examination based on the CISEC criteria.

So on the web site you would have the seal and you would have the CPA firm's identification - name, logo and so forth.

An interesting thing about this as we got into it, is that you would need a process so that you could revoke the seal after a point in time. Unlike an audit report, for example, where you said this is our opinion on the historical financials, unless there is something that comes to your attention that says that opinion is now incorrect and you would withdraw your report, the presumption is once you issue the opinion, it's there and you don't really have to worry about it anymore.

With the seal, it's only going to be good for a period of time. And that might depend on the nature of the web site. If it's a very dynamic web site, it changes a lot, that period of time might be pretty short.

If it's one which is fairly static, doesn't change a lot, it might be a longer period of time.

And we are trying to develop some guidance right now on how the practitioner would make

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some of those decisions.

 If the site changes and it's a dramatic change, then we would need to do something either to refresh our work or examination, or we revoke the seal, or after a period of time we would need to refresh the examination even if no changes were taking place, and if we didn't do that, we would revoke the seal.

 So we are looking at a process for being able to put the seal out on a web site, protect it, be able to revoke it and have that be under the CPA's control.

 So there are some technical issues there that we are addressing, and I believe we're on a pretty good track for some solutions.

 Let me talk a little bit about the CISEC criteria and where we are on that. Again, this is all preliminary. So don't take this as final at all. But I wanted to give you a sense of direction on where we were going.

 We've broken the CISEC criteria into three broad categories, the first of which deals with the business or what we are calling business history.

 And we would provide assurance about

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a description of the business, a description of business practices. So a particular web site might say, gee, we've been in business for five years, we've been selling our products on the world wide web for the last year, we guarantee forty-eight hour shipment of your order, and we will accept returns regardless of the condition that they are in.

Well, these are all things we can go back and test how much time between the order and the shipment actually took place and we could provide assurance about those sorts of facts about the business.

In essence, we are probably saying this business is what it is, what it says it is, and does what it says it does, which provides confidence to a consumer out there maybe wishing to do business with this particular web site.

Another category of criteria is around transaction integrity. If I order five items, I'm going to get shipped five items, not fifty items, my order is going to be promptly processed, it is not going to be processed twice and it's not going to be forgotten about, I will get billed for five items, not fifty items. There won't be hidden charges on the bill

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2 I wasn't told about at the time the order was placed.
3 Issues like that around transaction integrity would be
4 something that we could provide assurance about, again
5 looking at the history, looking at the controls that
6 are set up over the web site for processing these
7 transactions.

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9 And the third broad category and the
10 one you hear a lot about is the security and
11 protection. You might provide assurance about this
12 area, for example, information that I transmit over
13 the Internet will be protected, like my credit card
14 number. Basic protection like encryption might be
15 appropriate.

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16 Once the information gets to the web
17 site, what are they going to do with it. Well, you
18 would hope that they wouldn't disclose it to other
19 people without your prior permission.

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20 And we can look at what their
21 policies and practices are in that area.

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22 And then something a lot of people
23 don't know about, but it's technically possible when
24 you're connected to a web site, for them to come into
25 your computer and put information in and copy data out
and so forth.

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So you would want some assurance there that they're not going to do anything like that, again without asking your permission.

Now, there may be a legitimate reason for them to do that, but they should at least ask you before they do it.

So these, again, are some of the things that we now see as part of the criteria and the general direction in which it's headed, again all designed to provide confidence to the consumer and to increase their willingness to do business on the world wide web.

And I think the corollary to that would be to provide an incentive for merchants who are offering their services on the world wide web if they don't now meet the criteria to really upgrade what they're doing.

So, in general, we would hope there would be as a result of this a more thriving business community on the world wide web, a safer place to do business, a place where everybody is more comfortable and everybody would win.

Well, how would this work?

You would have something like the

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WebAssure seal. This is one of our several designs that we have and we are looking to make this graphic so that it might rotate. We've got one with a comet going around it and some other things like that.

And we've got the creative people working on this, not the accountants.

(Laughter.)

MR. EV JOHNSON: So I just give you some assurance about that.

(Laughter.)

MR. EV JOHNSON: We did have a couple of versions. Ron took a shot at one. I think a flipchart. But they are getting better every time.

So the web consumer would see the seal on a web page which would mean something was done and would then click on that seal to access the CPA's report.

Let me give you a couple of examples.

There is an organization -- some of you may have done business with them -- to give you an idea of how quickly things are changing in this environment. There is an organization called Amazon Books which is a bookseller that does business

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exclusively through the world wide web.

They started in 1995. They are the biggest bookseller in the world today, at least they claim to be. And they have a million-and-a-half titles in stock.

Now, if you're like I am, you know, a friend recommends a book to you and you go down to your local bookstore and, no, I don't have that one and they can order it and they would have it in three or four or five weeks and they'll call when it comes in, and maybe five weeks later you haven't heard from them and you call back and "oh, it's going to be another couple of weeks."

And you have the opportunity of flipping on your computer and going out and Amazon Books has it in stock, you can read reviews about that, see if your friend's recommendation was really a good one. Not only can you read reviews from The New York Times and other leading publications, but you can see what other customers of Amazon thought of the book as well.

You can order it. You have to literally put it into your electronic shopping cart, and then you get up to a checkout process and at that

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point you provide your credit card number and they ship it to you and in twenty-four or forty-eight hours you've got your book.

So it's really been a real business success. And I just noticed in The New York Times yesterday they're coming out with an IPO. So depending where you're on, you might want to think about that as an investment. But they haven't made any money yet though. That's the down side.

This is one of the pages off Amazon's site. This one explains a little bit about how they protect your credit card information.

And I don't expect you to read it, particularly those of you in the back of the room. But basically it says that there is encryption provided in both the Netscape and the Microsoft Internet Explorer browsers and you can use that to encrypt your credit card number when you send it over the Internet.

Or you can get to a certain point with the order and you can pick up the phone and call them and give them your credit card number confidentially over the telephone.

In any event, you see the WebAssure seal out there which means that a CPA has done

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something to verify that these are factual statements.

Here is another one. This one talks about completing your order, asks you enter your E-mail address and it sends you an electronic mail confirmation back about your order. It asks you for a password. Once you've given it your credit card number, you pick a password and then you only have to use that password going forward.

And, again, you can click on this WebAssure seal that you see and you would get essentially the report of the independent Certified Public Accountant.

Again, you have to meet all three of the categories of criteria: the business history, the transaction integrity and the security and protection to earn the seal.

And, clicking down, you would get to some sort of a detailed report.

We are now working on the graphics that you would have kind of between the seal and the detailed report that would communicate very graphically what was done and what the findings were.

Again, if they don't pass the criteria, the firm could still have its report out

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there but you couldn't use the seal.

So that's the basic approach that we're developing.

Where are we with support for this?

We start with the practice aids that we want to develop. We are putting together a handbook -- it's the operating name that we got -- covering WebAssure and CISEC.

This is really the public document. This is the sort of tool you would show to a client. It describes -- it will have the criteria in it in full detail and it will describe the service offering and what has to happen for them to earn a WebAssure seal.

We are going to publish this much like the software companies publish software. We will have Version 0.1 -- you might think of this as our beta release this summer, hopefully, late June/early July, something in that timeframe, which we will put up on the Institute's web page and distribute widely.

Again, we see this as an evolving set of criteria. We hope that we grow with experience, with feedback that we would get both from within the profession, from within our user community, the

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consumer community, the business community and so forth.

And this would evolve.

And probably later in 1997 we would issue Version 1.0. We might have a .2 and .3 along the way and we might have a 1.1 or 1.2. As we move on to the business to business, which is kind of phase two of this whole initiative, that might come up with a Version 2.0 of the criteria.

Another practice aid, the WebAssure Practice Management Guide. This is for the practitioner. This will deal with things like what kind of skills do you need to have to provide this service. And you can see some of this really draws on our basic skills as auditors and attestors. Others of it will require certain training and expertise in some of the security issues and how things work on the Internet and how to gain assurance about these.

So we will have some examples of checklists. We will talk about the seal and the mechanics for getting the seal on a web page. We will talk about engagement letters, some of the things in there that you will need to know to get up and running.

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We also have plans to put together a electronic commerce security guide really geared for the CPA practitioner. Again, this is more of a text that lets you know what you need to know about security in the Internet environment, again as a reference or a text to help in this process.

And we've got a whole bunch of ideas for other guides that we would publish as needed.

We want to get a quick start rollout. QuickStart is the operating name that we've given it. And we are going to start with a big splash announcement I guess, if that's the right way to do it. We are working very closely with the Institute's public relations and media people as to how to make this happen in a very effective way.

We will have press kits. We will have kits for practitioners. We are working on a list of frequently asked questions with answers.

We will involve the State Societies in this process.

We really want to get a big push and get a lot of communication, a lot of hype if that's the right term around this.

We are talking to some potential

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strategic partners: Microsoft, Netscape, AT&T, IBM. Microsoft has already indicated to us they are definitely interested in working with us on this. We are working out more details with them right now.

And hopefully these will be people that would be willing to be early implementers of the WebAssure service themselves and help promote it with their customers.

We've put together a program of practitioner workshops. There will be ten one-day workshops in key cities. We are going to start in July and run one in San Francisco and one in Baltimore.

We are going to give August off for vacations. And then we will continue in September and October and run the other eight.

From a marketing point of view, we are working with Yankelovich to put together a telephone survey and we got a couple of other organizations we are talking to about doing some focus groups around this really to validate, one, that there is a market there, which we all feel pretty confident about, and two, how to promote our services, sell our services into that marketplace.

We are developing promotion

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materials, both internally within the profession and external through our potential clients and the media strategy.

Well, that's an overview of where we are, where we are going with electronic commerce assurance.

I would like to add kind of a personal note here.

We are kind of the first one out of the shoot on this and we expected, I think, a new environment, new ways of doing things, and a lot of bugs along the road.

And I'll go back to something that Bob Elliott said in the Fall Council presentation where he talked about the AICPA of the future.

He said things like the AICPA of the future needs to be more responsive, quick to market, focus on customer and member needs, branding of services and on and on and on. He had about four or five slides as I recall talking about this.

Well, I had my reservations. I think some of you might have. Barry and others got up and said we've got the full support of the Institute.

And I've got to tell you, the AICPA

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2 of the future is here today. These guys have been
3 absolutely terrific. They have been moving mountains
4 to make sure that the service is out quickly, what do
5 we need, how can we get it done, how can we help.
6 Everybody at the Institute has really done a terrific
7 job on this.

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We've got a terrific task force.

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We've got great support from the Institute.

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I think we're making really good

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progress. And I would just like to thank everybody

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that has been supporting this process. And hopefully

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we will all be making additional money on this very

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quickly.

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Thank you very much.

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(Applause.)

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MR. RON COHEN: As you can see, the

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Electronic Commerce Task Force has been moving very,

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very fast. Their program is very ambitious. And we

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hope that, since they are, as Ev indicated, the first

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out of the shoot, that the way they have they gone

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about conducting their business in bringing this

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electronic commerce product to market will be a model

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for all of our other task forces.

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We have five other task forces

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currently formed. Some even have -- well, all of them have chairs at this point. Some have committees appointed, task forces appointed. Others, we are still looking for people to serve on these task forces.

And what we are looking for are individuals who really want to be hands-on in delivering these services, individuals/firms who really think that they see an opportunity to deliver this service to their particular market niche and would like to be involved in the development of some of these new services.

The five additional task forces that we have formed are:

ElderCare, which all of you saw a presentation on at the October Council meeting. That is chaired by George Lewis.

The Health Care Effective Task Force is chaired by Don Zaro.

Assistance Liability Task Force by Bob Zeibig.

The Performance Measures Task Force by Darwin Bolton.

And Risk Assessment by Tony Mackie.

And the individuals who are chairing

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these committees come from a broad range of firm size as well, from the very small to the Big Six, and then with a couple of Group B firms also included there.

So if any of you are interested or know of people who can contribute hands-on to these task forces, we certainly would be interested in receiving their names.

As Ev said, we see small windows of opportunity here. And certainly there are a lot of competitors who are involved in these services or similar services as much as we are.

So, again, speed is really important. We want to move all of these task forces very, very quickly so that we can beat any competitors to the marketplace.

At this point if any of you have any questions, we would be delighted to answer them.

Yes.

COUNCIL MEMBER VAL OVESON: My name is Val Oveson from Utah.

Has any consideration been given to the state and local transactional taxes relative to the electronic assurance services?

MR. RON COHEN: Ev?

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MR. EV JOHNSON: At this point not really.

MR. RON COHEN: Ev says at this point really not.

COUNCIL MEMBER VAL OVESON: It's a big issue and something -- it may play into that very well.

MR. RON COHEN: Okay. Thank you. We will certainly make note of that.

Wanda.

COUNCIL MEMBER WANDA LORENZ: Wanda Lorenz from Texas.

I am, of course, excited about the assurance services. I think it's something we -- it's going to be exciting in the future.

The big question I have is probably being considered but I didn't hear you all say it, is how we are going to deal with the independence issues with respect to things that we are looking at on the Internet that our members may already own stock in or whatever.

MR. RON COHEN: Ev, is that an issue that your task force has looked at this point?

MR. EV JOHNSON: What?

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MR. RON COHEN: Independence.

MR. EV JOHNSON: I think we said that independence was one of the attributes that you would have to have to be able to provide this assurance service.

We have been considering whether there are any other aspects of independence other than financial interest and then the traditional things that we would think about from an audit point of view or an attest point of view that might be relevant, to include that guidance in the practice management guide.

COUNCIL MEMBER WANDA LORENZ: Okay. You are going to have guidance on that.

MR. EV JOHNSON: Yes. To the extent that it goes beyond the existing guidance that we have, we would include it.

For example, if you had a site that was providing some sort of a service, you might not have a financial interest in it, but the CPA might have a relationship or something. It would depend upon the outcome of that.

So sort of like an on-line polling service for candidates, for political candidates, and

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one of the candidates was your brother, you probably wouldn't be independent on that.

So those would be the kind of things that we would want to give examples of things that can be considered in the independence process.

COUNCIL MEMBER WANDA LORENZ:

Thanks.

MR. RON COHEN: Judy.

COUNCIL MEMBER JUDY O'DELL: Judy O'Dell, Council Member from Pennsylvania.

Ev, I think this project is --

MR. RON COHEN: It's not on.

COUNCIL MEMBER JUDY O'DELL: Is that okay?

Does this one work?

COUNCIL MEMBERS: Yes.

COUNCIL MEMBER JUDY O'DELL: Ev. I think the project is absolutely fantastic.

I have one concern and maybe the timing was not described adequately. But I would think that we as practitioners would want to have that material in our hands before any kind of a media rollout.

I would be concerned perhaps that

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the demand would exceed the expertise that we in practice would have if it was all done at the same time.

MR. EV JOHNSON: Did I mention the practitioner kit as part of that media rollout? We were planning to have materials in the hands of practitioners and have that, you know, available to them before the media rollout.

MR. RON COHEN: Bruce.

COUNCIL MEMBER BRUCE HARPER: Bruce Harper, Texas Society.

These are just kind of tag-on comments to Wanda. But I was just, in Ev's presentation he used words such as "assure," "confidence," "integrity," "safe," "security," "protection," and that we are going to assure the user that a CPA has done something.

I'm just wondering, Ev, have you checked with our insurance committee to see, (a), are these services going to be covered under our malpractice policy, and (b) will there be any significant impact on our premiums.

MR. EV JOHNSON: I can't answer the second part of that. We have been working with Rich

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Miller, the General Counsel of the Institute, with a number of these issues. We have given him a rather long list of things. And that's one of them along with a number of other considerations.

But those are all things that I think we need to get some closure on as we start to roll this out.

We don't have a lot of answers to some of these things right now, but they are on our hit list and we are focused on them.

MR. RON COHEN: Yes.

COUNCIL MEMBER JACK KREISCHER:
Jack Kreischer from Pennsylvania.

Just a couple of comments.

Number one, I didn't see any reference to CPA anywhere in the logo which we are using and that may be intentional because of your affiliation with the Chartered Accountants. But it would seem as though we are trying to get some brand identification, that perhaps WebAssure could be replaced by a logo which would include CPA somewhere in that logo.

And then to sort of follow it up, which seems like a contradiction, but it's just

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something to be thinking about, if one CPA has a failure when using this logo, the rest of the CPAs who use it will be tarnished by the same brush.

And I just want to urge folks, recognizing that it's early and it's difficult to consider all of these things, but I would urge you to consider how we will damage control when we hit our first failure.

MR. RON COHEN: Well, you are right. Not putting CPA on there was because of the different designations as we try to market this internationally.

When you click on that logo, you will find out which CPA firm has provided that assurance. I assume that is how we want to get the CPA into the whole equation there.

MR. EV JOHNSON: And we are wrestling with a number of issues around that particular point.

We've got one version of it that says "CPA assured" on it, Canada would say "CA assured," and the UK would say "CA assured," that sort of thing.

We just need to get some more feedback on how to make this work and also from the

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marketing side what is the best way to brand this thing and establish the brand.

But those are all things that we have been working with in trying to get the best solution. And I think you're right on in terms of the issues.

MR. RON COHEN: Well, again, I would like to echo what Ev said about the support that this new committee has received from the Institute.

Both Barry and Bob indicated to you in October that they would be strongly behind development of this committee and they certainly have lived up to that promise.

We have, as I mentioned before, a new director that some of you probably haven't met, Casey Bennett.

Casey, why don't you stand?

Casey is the new director for our Assurance Services Committee and really, as I said, he has hit the ground running.

(Applause.)

MR. RON COHEN: He really has done an excellent job.

Thank you all very much.

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CHAIRMAN MEDNICK: Thank you, Ron
and Ev.

(Applause.)

CHAIRMAN MEDNICK: I would agree
with Judy. This is very, very impressive.

And we owe all of the committees and
task forces that are working on this a great deal of
gratitude.

We also look forward to more updates
in the future and obviously to roll out a lot more
service lines.

I'm going to move to Item 16, which
is to present to you for your approval four more
resolutions.

The first will authorize the
Assurance Services Committee, who you just heard from,
as a Senior Committee of the Institute.

The second would create an
International Associate Membership as was discussed in
March at the Regional Council meetings.

The third, also discussed in March,
the creation of a Student Associate Membership.

And, finally, an authorization of a
membership ballot to amend a portion of Rule 505 of

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the Code of Professional Conduct which I'll get into in more detail in a second.

What I would like to do is take them in that order.

And, first, we would request and the Board has approved a resolution which would provide additional recognition and status to the new Assurance Services Committee as it carries out its important work on behalf of the Institute and its members.

As a result, I would ask for the adoption of the following resolution which you will find in your packet of material under Item 16a. I will read it and then ask for a motion and a second.

"RESOLVED: That in order to facilitate the rapid and successful development of new Assurance Services, the Assurance Services Committee is hereby designated a senior committee..." -- and it would be known as an executive committee at that time -- "...and is given authority to make public statements and publish measurement criteria, without clearance from Council or the Board of Directors on matters related to its area of practice under Bylaw Section 3.6.", which is the section that covers all such committees such as the Auditing Standards Board,

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ASEC, the Tax Executive Committee, and so forth.

I would now entertain a motion of approval of this resolution.

A COUNCIL MEMBER: So move.

CHAIRMAN MEDNICK: A second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Is there any discussion?

(No response.)

CHAIRMAN MEDNICK: If there is no discussion, all in favor signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any contrary-minded?

(No response.)

CHAIRMAN MEDNICK: The "ayes" have it and the resolution passes.

The next two items I'll kind of cover as a package because that's the way we covered them with you at the Regional Council Meetings.

They are the creation of an International Associate Membership as well as a Student Affiliate Membership.

The Institute's staff has recently

1
2 focused on ways to broaden the base of membership
3 while recognizing the globalization of the profession
4 and strengthening our reach to possible future
5 members.

6 The first of these two proposals
7 again deals with the International Associate.

8 As the name suggests, it is aimed at
9 non-CPAs or their equivalent.

10 We already have a provision I am
11 told under Bylaw Section 2.6 for the International
12 Associate. However, Council has not previously set the
13 parameters for it.

14 Based on the proposed resolution,
15 these would be following parameters.

16 It would be open to all Certified
17 Public Accountants or Chartered Accountants or their
18 equivalent who are members of associations belonging
19 to the International Federation of Accountants and who
20 are of good moral character but do not hold a CPA
21 certificate issued by a United States jurisdiction.

22 I might add that the latter
23 requirement is inserted so that people who are
24 eligible to join the Institute as regular members do
25 not circumvent that to obtain similar benefits under

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this new category.

The International Associate category will be a non-voting category. However, all other member benefits will be available to them except that they will not be eligible for a seat on Council, will not be eligible for a seat on the Board of Directors except as possibly a public member.

To implement this category I would ask you to approve the first resolution which is in your packet of material under Item 16 b and c.

I am going to read it into the record again and then I'll ask for a motion to approve it.

"RESOLVED: That a new category of non-voting International Associate be created pursuant to Bylaw Section 2.6 and be made available to all Certified Public Accountants or Chartered Accountants, or their equivalent, who are members of associations belonging to the International Federation of Accountants and who are of good moral character and do not hold a CPA certificate issued by a U. S. jurisdiction.

"If reasonably practicable and appropriate, except for voting, eligibility for a seat

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2 on Council or as a non-public member of the Board of
3 Directors, all other member benefits will be made
4 available to the International Associates."

5 I'll now entertain a motion to
6 approve such a resolution.

7 A COUNCIL MEMBER: So move.

8 CHAIRMAN MEDNICK: Second?

9 A COUNCIL MEMBER: Second.

10 CHAIRMAN MEDNICK: Any discussion?

11 (No response.)

12 CHAIRMAN MEDNICK: All in favor

13 signify by saying "aye."

14 (Chorus of "ayes.")

15 CHAIRMAN MEDNICK: Any opposed?

16 (No response.)

17 CHAIRMAN MEDNICK: Again, that
18 resolution passes.

19 The second membership category again
20 is the Student Affiliate. It will be open to people
21 who are in college and plan to become CPAs or, having
22 graduated from college and not yet having passed The
23 CPA Exam.

24 No individual in this category would
25 be permitted to remain in the category for more than

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ten years or more than five years after graduation.

The Student Affiliate category, like the previous one, would be non-voting. In addition, they would not be able to sit on committees, would not be eligible for a seat on Council or a seat on the Board of Directors except as a public member.

All other member benefits that are practicable to be made available to Student Affiliates will be made available to them.

The resolution that would implement this category is the second resolution in your packet of material under Item 16 b and c. And, again, I'm going to read it quickly into the record.

"RESOLVED: That a new category of non-voting Student Affiliate membership be created and made available to students who plan to become CPAs but who are still in college or, having graduated college, have not yet passed the CPA Exam.

"No Student Affiliate may remain in this category for more than ten years or for more than five years after being awarded a degree, whichever occurs first.

"If reasonably practical and appropriate, except for voting, committee service,

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eligibility for a seat on Council or as a non-public member of the Board of Directors, all other member benefits will be made available to Student Affiliates."

Again, I will entertain a motion.

A COUNCIL MEMBER: So move.

CHAIRMAN MEDNICK: Second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Discussion?

(No response.)

CHAIRMAN MEDNICK: All in favor say

"aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any opposed?

(No response.)

CHAIRMAN MEDNICK: Again, we pass.

Finally, I am going to go on to the one which is new to you and it has arisen since the March Council meetings.

This deals with Rule 505 - Form of Organization and Name.

It is on our agenda at the request of the Professional Ethics Executive Committee.

Specifically, that committee is

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2 requesting an amendment to Rule 505 of the Code of
3 Professional Conduct which requires a vote of the
4 membership. So what you are doing is authorizing a
5 membership ballot.

6 Because such a vote is very
7 expensive, it is only economical to proceed with this
8 one now because you have already approved the vote of
9 the membership on the bylaw change discussed the other
10 day regarding the requirement to register in a
11 practice-monitoring program.

12 Again, a little bit of background.

13 As you can see from the material,
14 Rule 505 is made up of three paragraphs.

15 The requested change concerns only
16 the middle paragraph which relates to the use of names
17 of former partners in a firm's name.

18 As you can see from the existing
19 rule, the first sentence contains the general
20 prohibition against using firm names which are
21 misleading.

22 The second sentence permits the use
23 of names of past owners -- and it says here I know of
24 many firms that practice utilizing such names. I
25 clearly know of one.

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(Laughter.)

CHAIRMAN MEDNICK: The third sentence, however, is the problem sentence.

It puts an arbitrary two-year limit on the use of names of past owners after a firm of two or more owners becomes a sole proprietorship.

The Ethics Executive Committee believes that this could unfairly discriminate against sole practitioners since they recognize there are situations where sole practitioners ordinarily would be permitted to continue to use the name of a former owner beyond the two-year requirement.

In addition, the current rule could be read, on the other hand, to permit the use of a name which might otherwise be misleading, at least for a two-year period of time.

Moreover, the Professional Ethics Committee does not believe the AICPA should be placed in either situation.

Accordingly, they are suggesting deleting that sentence, the third sentence of the second paragraph. They believe, and the Board has agreed, that the rule is sufficient without it. In other words, it's covered by the other two sentences.

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Accordingly, the Board recommends for your approval the change to Rule 505 that is requested by the Professional Ethics Committee in the form of the following resolutions.

Again, I'll read quickly.

"RESOLVED: That Rule 505 - Form of Organization and Name, of the AICPA's Code of Professional Conduct would be amended by deleting the last sentence in paragraph two thereof;

"AND BE IT FURTHER RESOLVED: That this change be put to a membership vote."

Again, I will entertain a motion to approve these resolutions.

A COUNCIL MEMBER: So move.

CHAIRMAN MEDNICK: Second?

A COUNCIL MEMBER: Second.

CHAIRMAN MEDNICK: Okay.

I don't see anybody standing up to discuss it.

All in favor signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN MEDNICK: Any opposed?

(No response.)

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CHAIRMAN MEDNICK: It was pretty quick.

Four resolutions, a little bit more than four minutes.

What I would like to do now is to turn the podium over to John Hunnicutt. He is coming up right here on my right, who will give you an overview of our Hill visits. And I'm sure you will be particularly interested in John's remarks.

Thanks, John.

MR. JOHN HUNNICUTT: Thank you very much, Bob.

Like the briefing that we went through prior to your meetings, that they make this to some degree a working session, that is to say, if you or any member of the delegation from any of the states wish to go to the mike and share with your colleagues and us your experience on the Hill and any of the comments that you received, please do so.

And, of course, all through this, if there are questions or observations to be made, I would encourage you to do it.

One of the things that we learned as a result of your trip, your trips on the Hill is that

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we were remiss in not providing you either some Scholl's foot pads or some information in advance as to how to go through some fitness that would allow you to spend two-and-a-half to three hours on marble hallways and then spend two hours standing in a reception.

But we'll take that under advisement.

The other question I have for you and I would like a show of hands, and I will do this a number of ways, a number of times, because I think it's probably an effective way for us to get a sense as to how the meetings went rather than ask each of you to stand up or go to the mike.

But the first immediate question is: given the level of excitement that we sense as a result of your meetings yesterday, how many men and women in the room think at this point they have contracted a case of Potomac Fever?

(Laughter.)

MR. JOHN HUNNICUTT: Please, a show of hands.

(Laughter.)

MR. JOHN HUNNICUTT: I would caution

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you that it is contagious. We do not intend to provide an antidote, and we hope you infect as many of your colleagues back home as possible.

I am serious for a moment in the sense that there are some questions I would like to pose to you and have a show of hands.

And one of the reasons is that I wanted to first introduce some of your partners so-to-speak, that is to say, that is the team of people here in Washington that you now need to feel as part of your team and they feel that you are a part of their team.

Because I know many of you know this group, people on staff here in Washington, but they are full-time on the Hill. And now that you have been there, they need to know who you are and you need to get used to speaking with them and sharing your experience.

The Key Persons know who they are, through the Key Person Coordinators in the State Societies.

Now, I am assuming they are all here. My colleague, Tom Higginbotham, Brian Cooney, Lisa Dinakis and Sheila Colclasure.

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2 If they would all just stand up so
3 everybody can at least know who you are.

4 There they are in the room. Please
5 make sure you know them.

6 (Applause.)

7 MR. JOHN HUNNICUTT: And they want
8 to know you because you have just leveraged their
9 ability to communicate on the Hill by making the
10 connection with the members of Congress and you as the
11 governors, so-to-speak, of the profession.

12 Did any of you -- and I'm quite
13 serious here, we need to see a show of hands -- did
14 any of you sense or get any cool reception, any sense
15 that your members weren't aware of either the
16 profession or you or state, any of that kind of
17 reaction.

18 (Show of hands.)

19 MR. JOHN HUNNICUTT: I see a hand.

20 Now, let me ask the question with
21 regard to any members who weren't particularly briefed
22 by their staff, that seemed that when you encountered
23 them that they were just -- didn't get it or didn't
24 have a clue as to what was going on and so you
25 afforded them some insight as to some of the issues.

1
2 A show of hands please so that we
3 get some idea what we encountered.

4 (Show of hands.)

5 MR. JOHN HUNNICUTT: I see about a
6 half-dozen perhaps.

7 Okay.

8 How many of you at this point feel
9 that there is the need, a fairly immediate need, for
10 the AICPA in Washington to follow up on some visits,
11 to provide some information or to answer some
12 questions that you were either unable to answer or it
13 got into a level of technicality that we need to
14 follow up, whether it's tax or another issue.

15 A show of hands, please.

16 (Show of hands.)

17 MR. JOHN HUNNICUTT: All right.

18 It is very important for you in the
19 forms that we have asked you to fill out to either
20 indicate on those forms what follow-up is required and
21 we will do it: the member, the issue or the staffer.
22 And we will do so.

23 And we will identify you in our
24 conversation and make the link and then we will be
25 sure that you are aware of what that follow-up was.

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So it is incumbent on you, please, to include that in your evaluations if you have not done so, or if you have already put those forms in and you omitted that, by all means let one of the team I just introduced you to or me know about that.

How many of the members that you encountered sought your views or wanted to know what the profession had to say or felt on particular issues, either the ones that you were raising or other issues?

Can we see the hands?

(Show of hands.)

MR. JOHN HUNNICUTT: You are now establishing part of the goals and the mission, and that is to say, we want, as Bob has expressed many times, we want to establish you and establish this profession not only as advocates for our interests but as a resource for them.

So to the extent that you can continue to nurture their inclination and their desire to seek advice from you or to consult with you, that is the step in the direction that we wish to go.

So keep that particularly in mind.

And when you write your follow-up

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notes, which I would ask, as you've heard before, that all of you do thank them for the opportunity to visit and to follow up on any issues they raised, be sure to convey the sentiment that inasmuch as they were looking to you for some insight, advice, whatever, that you are readily available, the Society is readily available, the profession is readily available, to do that and they need only contact you on a regular basis or get to you through us if that is more convenient for them.

But in any event please capitalize on that.

Did you learn anything, any of you, that we need to know? By that I mean in what we talked about before and in the process and in your experience, are there some things that we here in Washington need to consider, things we may have missed or did everything go as you expected, as we had laid it out or not.

A show of hands.
(Show of hands.)

MR. JOHN HUNNICUTT: Okay.

And that's important because we, frankly, need, now that you have experienced this,

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those of you who encountered it for the first time, some of your insights and guidance on that and to be sure that the next time this occurs, which will be in two years hence if you have seen the schedule for the upcoming -- the dates of upcoming Council meetings, to fine tune and to modify what we have tried to do here.

What are your next tasks, if I may be so bold?

Well, your next tasks from our view here in Washington, is that you need to go back and encourage your colleagues now to become more active and more -- or less reluctant, shall I say, to get involved.

By you going back, you are going to validate for your colleagues in the State Societies the fact that the Key Person Program and the effort that we undertake in partnership with the State Societies is important work and that you are now a part of it and that you are now, in effect, one of a growing number of role models in the issue of our ability to convey to the Congress and be advocates to the Congress the profession's interest and messages.

As well as that it is a part of our professional obligation, your professional obligation,

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2 as you've heard over two meetings, to make sure that
3 the government, the policy makers, whomever, get it
4 right.

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And to the extent that we have
something to contribute on that score, that's
something that is in our activities and
responsibilities in the public interest.

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You now have validated that. And to
the extent that you will please convey that, share
your experience with the Society, share you experience
with your colleagues, either in your office or in your
firms or whatever, you will have gone a long way.

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As we said at the outset, you have
started the process, this group, joining the Key
Persons and the Coordinators, in having members of
Congress begin to have a larger group to look to in
the profession for guidance, support, as a resource
and the like.

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And now you must go back and be
missionaries, if you will. Since we've already
indoctrinated you in being missionaries on behalf of
the profession to Washington, now we ask you to go
back and be missionaries to your colleagues in the
profession that this is important work and that they

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have an obligation to join in it.

The last thing I would ask you, please, you are the governing Council of the profession and, thus, you now have a hand and you are the managers of this enterprise.

We want your guidance and we want you to tell us, please, what's right about it, things you would want to modify with your experience, whatever your insight was because it's important.

We wanted you to feel comfortable with it. I know that some of you, your feelings ranged from dread to trepidation to curiosity. I have a sense based on what my colleagues tell me and we circulated last night during the reception and conversations this morning, that you found it fun, one, two, useful, third, informative, four I think that you've made an impression on some members.

I believe a number of you felt a bit surprised that it works as well as it does.

And although you were reluctant to raise your hands on my question of Potomac Fever, I would venture to say you have a mild case of it.

We will look over the evaluation forms very carefully and we will share through your

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Societies and your Key Person Coordinators exactly what has taken place and what you have reported to us.

Please tell us again where we must follow up and we will do so.

You are now part of a quite large team of our Key Persons. You are now honorary members of that effort. And we are more than delighted that you have joined this august group.

We thank you for it because it is important and you made our lives, if we can be selfish, a bit easier.

But you've also enhanced substantially the profession's ability to convey what it needs to convey and to meet its public responsibilities, whether it's in our own interests, your clients' interests, your friends' interests, or whoever's interest in society. And that's important work. You are now part of it.

Thank you very much, Bob.

(Applause.)

CHAIRMAN MEDNICK: John ran off the podium. If anybody does have any questions or whatever, I'm sure he would be glad to answer them now or when we break shortly.

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I don't see anybody right now.

This is my time to give you some closing remarks. I am looking at my watch here, and if you use Michael Dunn's definition again of a good and excellent meeting, you're in the unfortunate position of giving me as much as thirty minutes and still having an excellent meeting.

But I am not going to take that risk.

(Laughter.)

CHAIRMAN MEDNICK: I do want to though want to give a few general observations, and they are just from my personal perspective, but I think I owe it to you having forced you to sit or stand and listen to me a good portion of the last three days.

From my own personal perspective, this has been a very productive and, in fact, exciting meeting.

I would be remiss if I didn't acknowledge that many of you, in fact, very many of you have been very kind and generous in your remarks, have gone out of your way to seek me out and in some fashion tell me that things have gone very well.

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2 I would be dishonest if I didn't
3 tell you that it's nice to hear those kind words and
4 you can keep the cards and letters coming.

5 (Laughter.)

6 CHAIRMAN MEDNICK: But, on the
7 other hand, I want to be very sincere here when I tell
8 you that if we have achieved success or maintained the
9 momentum over the last three days, the reason
10 primarily lies with yourself and this body as a whole
11 far more than anything I could do, Barry could do or
12 the staff could do, because you are the governing body
13 of the Institute.

14 And I really do hope and sincerely
15 hope that you feel some pride in what we have
16 accomplished.

17 If I were to summarize what I felt
18 this meeting was about I would say it relatively
19 simply.

20 This meeting has been about
21 leadership.

22 This meeting has been about vision.

23 This meeting has been about managing
24 change instead of letting others manage us.

25 This meeting has been about meeting

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public responsibilities.

And it has been a meeting about innovation.

Three days ago in my opening comments I briefly described some of what I would even call bold and creative things which we have achieved during the past few months and years.

And as you might recall, I indicated that the big question for us now is whether or not we can maintain the momentum.

Well, I have to tell you for one I would give this group a very high score in that regard.

What we have done here during the past few days has been, I think, really an accomplishment we need to all feel good about.

And I will just close with one more time expressing my personal thanks for your cooperation, for your attention, certainly for your insights and support in helping this process of transforming the CPA of today into the premier information professional for the 21st century.

Our next meeting, just as a quick reminder, is in Tucson. It is at the Lowe's Ventana

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Canyon. It is a resort. I'm told it has an excellent
golf course. The dates are October 19th to the 23rd.
Do mark your calendars and come prepared for sunshine.

I will now call this meeting
officially adjourned.

Thank you all very much.

(Which were all the proceedings at
the 1997 Spring Meeting of Council, which concluded at
11:52 o'clock a.m.)

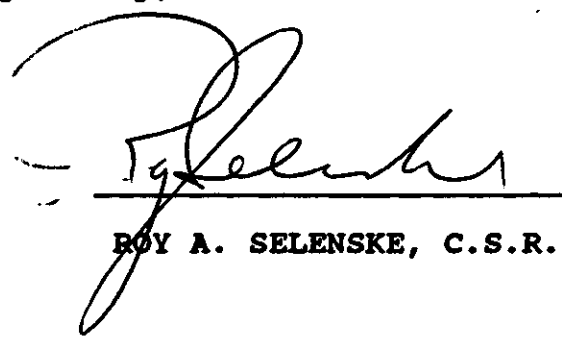
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STATE OF NEW YORK)
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I, ROY A. SELENSKE, a Certified Shorthand
(Stenotype) Reporter and Notary Public within
and for the State of New York, do hereby certify
that the foregoing pages 1 through 399 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 22nd day of May, 1997.


ROY A. SELENSKE, C.S.R.

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