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COPY

FALL MEETING OF COUNCIL

of

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC

ACCOUNTANTS

October 17-19, 1996

Fairmont Hotel
Chicago, Illinois

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

Friday, October 18, 1996

8:45 a.m.

CHAIRMAN COHEN: Good morning,
everyone.

It is my pleasure to officially
welcome you and your invited guests to Chicago and
this Fall Meeting of Council and also to extend a
welcome to the incoming Council Members and the
Committee Chairs and other AICPA members and Society
Executive Directors and the press.

It is a pleasure to have all of you
with us.

I hope that everyone enjoyed the
opening reception last night at the Museum.

(Applause.)

CHAIRMAN COHEN: With all of the
changes that we have been making and the emphasis that
we've placed on change, I want to assure you that I
did not have any ulterior motives in putting a group
of CPAs together with a bunch of dinosaurs last night
in the Museum.

(Laughter.)

CHAIRMAN COHEN: We look forward to

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working with you through the Council meeting.

I think we have a very stimulating and exciting agenda, certainly future-oriented. And I think you'll find that it will be as interesting as any Council agenda that we've had in recent memory.

Certainly with the issues that are on the agenda, with Bill Gates speaking to us and Edie Weiner speaking to you, I guarantee you that when you leave here today, that you definitely will be looking toward the future and not toward the past.

As in the past few years, we have restructured the format of Council, the entire meeting, to include a meeting of the Chairs of all the AICPA Committees and Subcommittees and Boards, as well as an issues update session for Committee Chairs and the incoming Members of Council.

Both of these sessions were held yesterday and I think they were very worthwhile from the comments that I had.

Since incoming Members of Council will be with us today and tomorrow and Committee Chairs also have been invited to attend these sessions, it offers a great opportunity for enhancing the interaction among all the members of the

2 profession.

3 And I encourage you to engage the
4 Committee Chairs in discussions on their work, the
5 work of their Committees, as well as how their
6 activities relate to the issues that we will be
7 facing.

8 As we did at the Spring Meeting of
9 Council, we did away with the designated seating areas
10 by Council status. But as you've noticed as you
11 entered the room, we do have assigned seating for our
12 sessions today in order to have varying perspectives
13 on the issues that we discuss. And I hope that all of
14 you are sitting at the tables to which you have been
15 assigned.

16 Tomorrow we will have open seating
17 and you can select your own seating wherever you would
18 like to be.

19 Please note also that we are going
20 to be taping all of the presentations from the podium
21 -- from the podiums over the next couple of days.

22 And as we began with the last
23 Council meeting, we intend to distribute to you
24 following the meeting talking points of the meeting,
25 the video of this meeting and other materials so that

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you can report back to your various CPA groups, the Society Boards, Chapters and Committees, firms and employers or any other groups.

This approach responds to the feedback that we previously received in which you asked us to help you communicate more effectively with grassroots groups within the profession.

And it's also part of the many steps that I think we have taken to improve communications with Members of Council as well as other members of the Institute.

Also, note on the agenda that we will not have the normal video update that we typically showed at the opening minutes at the Council sessions.

However, tomorrow we will have a video regarding the history of the accounting profession in the United States and many of its important milestones as we celebrate the 100th anniversary.

A lot of work went into the video and we're excited about sharing the results with you.

The video update that we normally have will return at the next meeting of Council.

2 I want to welcome all of our guests
3 today including representatives of other accounting
4 groups, the media. We certainly welcome your
5 participation in our deliberations.

6 As you know, we have many
7 significant issues facing the profession and major
8 steps being taken by the Institute in many areas. As I
9 said, I think it's certainly evident in the agenda
10 which we will follow today and tomorrow.

11 You are going to hear from Bob
12 Elliott, Chair of the Special Committee on Assurance
13 Services, as he facilitates a detailed discussion of
14 the Committee's findings and recommendations. And I
15 think you're going to find them very innovative and
16 forward-looking.

17 During the consideration of the
18 Committee's information, we are going to utilize the
19 electronic voting pads which we used, as you recall,
20 during the Spring Meeting of Council and which we got
21 some very positive reviews about.

22 We are going to cover fewer
23 questions than we did last Spring in large part
24 because of the evaluations that we had at that time.

25 We are also very excited about

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having the presentation by Bill Gates of Microsoft. He is going to be beamed in by satellite from Seattle.

His association with the AICPA, Microsoft's, is part of a joint strategic initiative between the AICPA and Microsoft which will help position CPAs as small business technology consultants. On your tables you have a copy of the news release that will be distributed.

We also have another very future-oriented and mind-expanding presentation on our agenda. You will be hearing this afternoon from Edith Weiner who is the President of Weiner, Edrich & Brown, a major strategic consulting and futurist firm.

Some of you may have heard Edie before. She and her firm have been involved for a number of years consulting with our Strategic Planning Committee and making presentations to our Board of Directors.

And we are very pleased to fit this meeting onto her busy schedule.

After her presentation this afternoon, we will receive an update from the Special Committee on Regulation and Structure of the Profession.

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2 This will involve a report by Curt
3 Mingle, the Chair of that Committee, and John
4 Sharbaugh, who is Vice President of State Society and
5 Regulatory Affairs. They will present the Committee's
6 current thinking and give you an up-to-minute update
7 of the direction in which that Committee is moving.

8 That presentation will be followed
9 by a series of presentations from various Members of
10 Council, NASBA, American Express and other interested
11 parties.

12 And they will be around the room on
13 the different podiums that you see.

14 And you'll see from the
15 presentations that we are going to be presenting a
16 number of different sides of the issues in an effort
17 to stimulate an open and frank dialogue about this
18 very important issue.

19 After that, we will have roundtable
20 discussions and, again, use the electronic voting pads
21 to gauge your opinion and get some feedback from you
22 again regarding regulation and structure.

23 Again, the voting pads, as I said,
24 are to give the Committee and the Board your feedback.
25 And when you hear Curt's report, you'll notice that

1
2 your feedback at the May Council Meeting where we
3 discussed this has had substantial impact on the
4 direction of this report.

5 We will conclude today with the
6 first of two open forums in which you can raise any
7 issues that you would like to discuss and have the
8 Council or the Board consider.

9 So I think, as you can see, this
10 will be a very thought-provoking and action-packed
11 day.

12 Tomorrow morning, we will begin with
13 a panel discussion regarding the work of the Special
14 Committee and responding to the sessions that we have
15 this afternoon on the work of the Special Committee on
16 Regulation and Structure.

17 This will be a panel discussion
18 followed or including questions and answers from the
19 floor.

20 Then we will consider the
21 Institute's role in the area of accreditation. The
22 Council will be asked to vote on the Board's
23 recommendation related to the Accreditation in
24 Business Valuation.

25 Following that, we will hear from

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Olivia Kirtley, as Chair of the Finance Committee. And she will present to you the financial results for our latest fiscal year as well as a summary of the budget for the 1996-1997 year which you approved at our last meeting.

Then you will receive the Report of the AICPA Nominations Committee. The Chair of the Nominations Committee this year, Bob Israeloff, will ask you to elect the 1996-1997 Council and the Board of Directors.

We will then have an election of the auditors of the AICPA and its subsidiaries for the 1996-1997 year.

Now, then on Saturday afternoon we will hold our Annual Members Meeting. And, again, we will end our session tomorrow with our second open forum to allow you to again voice any concerns or ask any questions that you might have of Council or the Board.

That covers our agenda.

A few administrative announcements.

Be sure to fill in the attendance form that was given to you when you picked up your badge and leave the form at the Council Registration

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Desk. This is very important since our by-laws provide that any elected Member of Council or Member-at-large who is absent from three consecutive meetings will forfeit their seat.

We are also conscious of Members' desires to obtain CPE credit when it's warranted. At this session I'm pleased to report to you that you will receive CPE credit totalling nine hours for this meeting.

I would remind everyone to protect the legality of the proceedings. Until we elect the new Council, only members of the 1995-1996 Council, those are the ones with the green and orange-colored badges, may make motions and vote on formal motions.

After the installation of a new Council tomorrow, only the 1996-1997 Council will be able to vote. Those are the members with green and yellow badges.

If you are color blind, you can ask the person next to you.

(Laughter.)

CHAIRMAN COHEN: The Chair will extend the privilege of the floor to new Council Members, to AICPA Committee Chairs, to State Society

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Executive Directors, and as well as other members who are guests in the audience.

Some members of the Institute executive staff are with us and they are here to help us if needed in our proceedings. And I would ask you to seek them out during the course of the next two days since they are eager to hear your opinions on the many issues facing us now and in the future.

As a way to promote orderly meetings, Council has adopted a resolution calling for motions to be made in writing and submitted to the Chair prior to the meeting so that they can be reproduced and distributed to all members during the discussion, most particularly if a vote is to be taken. And we appreciate your cooperation with our written motion policy.

And I can report that we have received no written motions prior to this meeting.

One other item. For those of you who signed up for the Fun Run, as you know, it was cancelled. And if you haven't already, you will receive a refund. The check is in the mail. So if you signed up, you will get your registration fee back.

I also regret to inform you that

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Erling Dokken, a member of Council from Minnesota, passed away this week.

I would now like to turn to Item 2 on the agenda, the Report of the Special Committee on Assurance Services.

This Committee was created two years ago. And the purpose of the Committee was to analyze and report on the current state of the audit and assurance functions and the trends shaping the audit and assurance environments.

This included focusing on the current and changing needs of the users of decisionmaking information and other stakeholders in this process and how best to improve the related services provided to those parties.

At that time, as you might recall, we indicated that the Committee would report to Council at this Fall Meeting.

We periodically received status reports along the way.

To present the Committee report, I will now call upon Bob Elliott, Chair of the Committee, along with four individuals who have been part of the team that have moved this project along:

2 Harold Monk, George Lewis, Everett Johnson and Don
3 Pallais.

4 I think what you are about to see
5 and hear over the next couple of hours will be
6 extremely exciting.

7 And without any further ado, Bob
8 Elliott, the microphone is yours.

9 (Applause.)

10 MR. ROBERT ELLIOTT: Thank you, Ron.

11 It is a pleasure for me to able to
12 be here this morning and talk to my fellow Council
13 Members about the Final Report of the Special
14 Committee on Assurance Services.

15 This is my fourth report to Council
16 and the final report.

17 Many of you may not be involved in
18 doing audits in your firms so you might wonder how --
19 the relevance of what the Committee has done to your
20 own particular practice.

21 But I remind you that audits are
22 important to all CPAs.

23 In the first place, this is the
24 profession's core product. It's the centerpiece on
25 which we base the rest of our practice and it is the

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basis of our regulation, the basis of the CPA certificate and designation which has been put in place to protect members of the public who rely on the audit function.

And so if we don't have a strong, viable audit function in this profession, we don't have a strong foundation for everything that we advance ourselves for as CPAs.

Now, Ron already reviewed with you the Committee's charge which I would summarize in these three bullets.

First, to analyze the assurance function, which includes the audit function, from all angles.

Secondly, to recommend new assurance service opportunities for our members.

And then, thirdly, to begin implementation. In other words, this is an action-oriented Committee. It had an action-oriented charge.

Now, before I go any further, we need to refresh our memory on what we are talking about when we say assurance services.

And so here is the definition that the Committee has come up with in its final form.

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2 Assurance services are independent
3 professional services that improve the quality of
4 information or its context for decisionmakers.

5 Now, that's quite a mouthful.

6 Let me focus on a couple of those
7 words.

8 These remain independent services.
9 This is the touchstone of the audit and assurance
10 function. It has been the case in the past and we
11 intend that that go forward into the future.

12 Our key positioning in this function
13 is that we are independent. We have no skin in the
14 game.

15 The second thing I want to focus on
16 is professional services. This again does not change
17 from the present. This is exactly what we have now.
18 We're not talking about a shift from people to
19 software, but we're talking about independent
20 professional services.

21 But from here the game changes
22 because these words, "improve the quality," are much
23 broader than the current audit function which is
24 really focused on improving the reliability of
25 financial statements.

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Improving the quality includes lots of other things besides other than reliability. It includes relevance, timeliness, format and anything else that makes information more valuable to the users of it. So that's a broadening.

The next word I want to focus on is "information." Again, that's a broader word than financial information and that's broader than financial statements.

So we're really talking about applying this assurance function to a very broad array of information.

We are also looking at the context within which decisions are made, the decision problems that are faced by people. And anything that improves the context within which decisions are made can also be thought of as an assurance service.

And, finally, I'm going to focus on the decisionmaker, him or herself. We put that person right in the definition to make sure that the assurer is absolutely focused on the use of the information. It's a change in focus from preparation to use.

If you place this assurance function then in space, you can kind of relate it to the

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functions that we know about now.

So from this graphic, you can think about the audit as being in this place in space.

The AICPA has already defined a broader set of services called attestation services.

So that includes the audit but it also includes other things like, for example, review or agreed upon procedures and lots of other types of engagements that might be of an attestation nature.

If you take the definition of assurance services that I have given you, it provides a yet broader space and it opens up all of this green space of opportunity here.

It includes attest services which include audit, but it includes lots of other things as well.

For example, services that improve the relevance of information for decisionmakers.

Services that permit auditors and assurers to provide assurance on the reliability in systems; for example, real time assurance on information and databases.

Navigation services, helping users find the information they need from the vast sea of

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information that is available to them.

Contact services; helping them get a better handle on the context within which decisions are made.

And lots of other space for new services.

Now, by way of positioning, I want to just focus on this concept of the information value chain.

If you think about it, what happens is in the real world business events and transactions are taking place and nobody would know what was going on if somebody didn't sit down and record those transactions or events and create data, raw data, about what happened: as a thousand widgets were loaded on a truck, data like that, at that level.

But that data then is combined, analyzed and synthesized into information like financial statements. And that information then is combined with other information and synthesized so that people can get knowledge about business problems and events and they can use that knowledge then to make wise decisions.

So that's the information value

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chain leading from undescribed reality up through wise decisions.

Now, the reason I want to focus on that is if you think about the low end of the value chain on the left, what you are talking about there is an emphasis on the production of information, producer-driven ideas.

When you get to the right side of that arrow, you are talking about the consumption or use of information.

So that's one way of thinking about that value chain.

Another way to think about it is at the left end you are talking about mass production, not particularly thinking about who is going to use the information, but just getting lots of information available.

Whereas at the right end of the chain you're talking about very targeted use of information to support very specific decisions.

Again, you can look at it and you can say that the emphasis on the left end of this value chain is on reliability. What we want is lots of accurate information, reliable information.

2 At the right end of the value chain
3 though what we are talking about is relevance, that
4 is, decision usefulness, information that will help
5 make specific decisions.

6 Yet another way of looking at it is
7 that the left end of the value chain, we're talking
8 about relatively low value added. This is the end of
9 the chain that is being largely technologized and it's
10 very difficult to make a lot of money recording
11 information and boiling it down into financial
12 statements.

13 Whereas at the right end of the
14 value chain, this is considered by users,
15 decisionmakers and whatnot, as very high value added.

16 So you go from low value added to
17 high value added through that chain.

18 Another way of thinking about it is
19 that our competitors who are coming in are basically
20 focusing their efforts on the left end of that value
21 chain. That's where the American Expresses are coming
22 in, that's where the software vendors are coming in
23 and so forth.

24 What we need to be thinking about is
25 how we can move up that value chain from the low value

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added end of it to the high value end of it.

And so, therefore, in summary of this value chain, we can think about this as an arrow that leads from our past, the creation of financial information, to our future, which is the use of that information to make wise decisions.

So we've got to move up that value chain. That's our task.

Now, we've already done that a great deal as a profession because, if you think about tax consulting, if you think about personal financial planning, if you think about management consulting, those are over at that right end of the value chain.

And even our advertising campaign in the AICPA is on this track because if you look at the tag lines, things like "The CPA, never underestimate the value," or "You see numbers, we see opportunities," that's attempting to reposition us as a profession up the value chain.

But what we need to do now is we need to apply this same migration path to our traditional accounting and auditing function and move that up the value chain.

So that's kind of a framing or

1
2 positioning for what I want to talk to you about for
3 the next couple of hours.

4 What we are going to talk about
5 first is the changing environment.

6 We are going to talk about threats
7 to CPAs coming from that environment and opportunities
8 for CPAs.

9 Then once we know what those
10 opportunities are, we are going to look at the actions
11 that need to be taken by the Institute, by the firms
12 and by you personally in order to take advantage of
13 these opportunities.

14 And then what we're going to do is
15 look at how the AICPA can help the members to do that.

16 That's our agenda, these five items.
17 And we will go through those.

18 As Ron mentioned, helping me out are
19 some of the Committee Members: Harold Monk, George
20 Lewis, Everett Johnson and Don Pallais. I will
21 introduce them more completely as we get to their
22 section of the program.

23 But before we go into the rest of
24 the program, what I want to do is, as Ron mentioned,
25 is I want to get some polling information from you.

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What we are going to do is we are going to use this information to get your input. We want to test the Committee's assumptions about events, circumstances and trends to see whether we are in synch with you.

We want to relate the Committee's findings as we go through the report to your concerns and issues.

And we want to shape our final communications package as we go out to our members.

Now, turn to the polling unit that's in place in front of you and pick it up and examine it.

(Laughter.)

MR. ROBERT ELLIOTT: And you'll notice that there are basically ten number pads. Most of you have used these units. There may be a few here who haven't.

Everybody in the audience is invited to respond when I ask the questions, to which you have an answer that is relevant to you. Okay? So it doesn't matter whether you are a member of Council or not. You're invited to respond.

When I ask the questions, I'll give

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you a range of answers and you press the numbers from 1 to 10. Your response will light up in the little window. And then when the response has been picked up by the computer backstage, you'll get three little horizontal bars. And that will tell you that your vote has been recorded.

Now, if you want to change your response at any time before I close the polls, just press another response and that will override your first one.

So it's important to remember we're in Chicago now and so you vote early and vote often.

(Laughter.)

MR. ROBERT ELLIOTT: Okay. Now, let's start. We are going to use a fun question first to make sure that the responses are getting received by the computer and to get a head count on how many responses to expect. Okay?

If the election were held today, for whom would you vote for President?

If you would vote for Clinton, press 1; Dole 2; Perrot 3; and may I have another option, please, vote 4.

(Laughter.)

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MR. ROBERT ELLIOTT: Let's see the graphic and see where Council stands on this important issue.

(Laughter.)

MR. ROBERT ELLIOTT: Okay. Now we know that the clickers are working and the computer is picking up the response.

What I want to do now is I want to get a little bit of biographical data from you.

(Electronic polling was conducted with all of those assembled.)

MR. ROBERT ELLIOTT: Can you switch the video back, please, to today's agenda?

This is what I went over with you. I want to start with the changing environment.

Now, we gave you presentations on this at the Spring Meeting in '95 and we've sent you some written material on it. So I just want to refresh your memory very quickly.

Remember, we went out and we studied megatrends. We looked at things like information technology and how it is changing so dramatically, how it changes every aspect of what we are doing as accountants and auditors and consultants.

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2 We looked at the change in
3 competition and the emergence of new competitors
4 because, as we get outside the protected space, which
5 is the audit of financial statements which we have by
6 franchise, we have to actually get in competition with
7 other providers. And so we've studied that.

8 We looked at changes in corporate
9 structure - alliances, partnerships, downsizing,
10 virtual organizations - and how that is going to
11 affect the supply and demand of assurance services.

12 Changes in demands for
13 accountability among the population in general.

14 Changes in the way investment
15 capital is formed and deployed.

16 The litigation environment, which is
17 of extreme importance and concern to us.

18 The aging of the population and the
19 way it shifts the demographics which shifts the way
20 capital is building up and who owns it and how it's
21 intermediated and who the customers are for assurance
22 services.

23 And the globalization of business.

24 We looked at all of these types of
25 trends to find out what the implications were for the

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services that we are providing.

Now, what we found out, of course, is that while audits retain a great deal of value, as they do - they approve liquidity in the financial marketplace, they reduce the cost of capital for American business and they promote honest securities markets - no one is saying that the audit doesn't have a great deal of value as it stands. It is tremendously valuable.

But there are some warning signs on the horizon.

One is that there is market saturation for that product.

There has been no increase in that in the last seven years that we've tracked. It has been absolutely flat in terms of revenue.

But because of technology substitution, if you looked at it, the head count is actually down twenty-five percent over the last seven years. Okay?

That's because there is saturation in the market for that product along with technology substitution.

Which leads to the fact that college

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2 students looking at this as a career opportunity are
3 not finding it as attractive as they used to.

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5 I also think that the litigation
6 explosion is the signal to us. A lot of it lacks
7 merit, but some of it is meritorious, and it's our
8 customers way of telling us that they are not
9 satisfied with what we are providing them.

10

So that's a warning sign.

11

12 And we have a loss of decision
13 information market share. I showed you this graphic
14 before but let me refresh your memory on it.

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16 Over the course of the century the
17 information content that we are providing people is a
18 certain amount, which is represented by this red band.

19

20 For most of the century it was going
21 up because we had better and better accounting
22 standards and practice.

23

24 But late in the century it actually
25 begins to trail off because the financial statements
26 that we prepare as accountants and auditors no longer
27 very well describe public industrial enterprises,
28 enterprises that don't make their money by trading on
29 physical assets like inventories and plant equipment,
30 but make their money by trading on mental assets,

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intangibles, research and development, capacity for innovation, information, these types of assets, which we don't reflect in the financial statements in a very good way.

So at the same time as this represents our contribution to the information that decisionmakers get, here is what's happening to other information that is available to them.

Early in the century there was some other information. As the century went on, more and more third-party intermediaries came out to develop new information for these decisionmakers, third parties like Dun & Bradstreet, Moody's, Standard & Poors.

But as you get later in the century, there is an explosion of other information possibilities enabled by information technology.

And this is the graphic that reflects what you just told us on the poll, the percent of business information needs that are met by accounting and auditing information. The median was somewhere around twenty percent that you punched in. And what do you see here? You see something like twenty percent is what we are providing. And the other

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eighty percent somebody is providing that information. And if there is any assurance on it, somebody else is providing it.

So that's what I mean when I say a loss of decision information market share.

So that's kind of the environment.

Let's look at some of the threats.

As I mentioned, as we move into areas beyond the audit of financial statements, we are talking about moving into areas where we have no monopoly protection under the States' CPA statutes. So there will be other competitors. That is a threat.

Technology represents a threat.

Other new competitors coming in.

And we have some self-employed threats.

If we look at technology, we have a changing paradigm for users to access information and assurance. They no longer wait to receive documents on paper long after the end of a period.

The new paradigm is they log on to get the information they want when they want it, which creates a power shift from the producers of information to the consumers of information.

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It permits technology substitution for some of the things that we used to do. And you can see that in the availability of cheap but powerful software that does some of the functions that we used to do as CPAs: tax preparation, accounting services and so forth.

So that technology substitution is out there.

And we have these new competitors. Some of them might be capital based. In other words, if to move into this space requires lots of capital which we as CPAs don't have, then you might have competitors with things like American Express or AT&T Financial Services or Citicorp.

On the other hand, if technology turns out to be a key driver of this success in this marketplace, then you have the possibility of competitors with things like EDS or Motorola or IBM.

On the other hand, if it's information that is the basis for competition, the competitors, they have names like Dow Jones or McGraw-Hill.

Here is an ad that I picked out of The Wall Street Journal from Dow Jones. What they

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said: "Our mission is to make sure you receive the highest quality business information in whatever form, place or time you want it with integrity, independence, timeliness and responsiveness."

Now, if that's not an attempt by an information-based company to move into the space that we have traditionally occupied, I don't know what it is.

This is an ad. These people are running ads in the paper trying to move into this space.

And we have some self-imposed threats. We have a lack of "dipples." We will be competing with people who have product cycles of six months, a year and eighteen months. And our product cycle takes us much longer. We are much more used to a slow product cycle.

We also have rules and regulations that we impose on ourselves. Now, they have many positive attributes. They enable us to control quality and present a good crisp image to the public.

But they also prevent us perhaps from doing some of the things that we need to do to move forward.

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And we have a mindset issue. Are we really ready to move into these new areas?

Now, the graphic earlier suggested that at least this group is. But some of our customers are not so sure about it because here's what an institutional investor said to us when we interviewed customers. "Lots of touchy-feely information is needed that would be outside of the CPA's domain."

That's what one customer said.

Here is what another customer said to us. This is a bank officer. He said: "If audit companies created standards and evaluated and ranked players in various categories, such as hospitals, physicians, mutual fund companies, consumers' decisionmaking processes would be greatly enhanced."

That's what he said.

But that's not the whole quote. I haven't finished the quote for you.

"It is very hard to imagine audit companies as sufficiently creative to pull this off."

Creativity is one of the things that we looked at on those slides earlier, that the demand exceeds the supply.

Okay.

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So we've already reported to you on these threats -- the changing environment and the threats to CPAs. And I just wanted to refresh your memory on it.

But what I really want to spend the rest of the day on is the opportunities and how we are going to realize them.

So let's talk about those opportunities for the CPAs.

The external environment is throwing things at us where we have much higher demands for accountability in the general population and we have a shift toward information economy.

Now, these trends run strongly in our direction because we are the folks who supply accountability. And a shift towards an information economy is shifting into the domain where we historically have been very strong.

So that's very good news.

In addition, when we talked to customers, what we found out is that there are many latent demands for information and assurance that we CPAs could be meeting but are not now meeting.

And we found that customers are

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ready to buy from us. We are going to have some data on that in a little while to show you readiness for one of the new services that we can go onto.

And when we looked at competencies, we found that we have many of the needed competencies to go into these areas; not all of them, and we're going to show you some competency gaps, but we have many of the needed competencies.

So there's tremendous good news here.

And one of the people we interviewed down at the SEC said this. He said: "Adding greater reliability to more relevant information is the big opportunity to add value." Moving us up the value chain to relevance. This is coming from our principle regulator of companies that are publicly registered.

So what the Committee did then to try to put some meat on the bones of these opportunities was to interview a group of customers. I reported on that to you a year-and-a-half ago.

We inferred from all that megatrends work that we did, looking at external factors.

We also went out and we surveyed twenty-one medium and larger firms to find out what

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2 assurance services they were providing right now that
3 went beyond the traditional audit of financial
4 statements.

5 And we found over two hundred and
6 fifty examples of things that firms are doing right
7 now. That's the good news.

8 The bad news is they're won off,
9 they're not working on this and we are not developing
10 new markets for them.

11 So the Committee wound up listening
12 to hundreds of potential new assurance services that
13 the profession could be involved in.

14 Now, we didn't have the opportunity
15 or time to develop hundreds of new services.

16 So what we did was we developed six
17 of them. We brought them up to the point where we
18 think they are ready for the market or almost ready
19 for the market and we are going to report on those six
20 to you in a few minutes.

21 How did we pick the six that we
22 developed?

23 We picked six that we thought had
24 very high revenue opportunities and we picked six that
25 gave a good spread of opportunities for small firms,

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medium firms and large firms.

So those were the criteria we used to decide which six to develop.

What we thought about then was customers on this two-by-two array here. So we have customers and we put them in two buckets: one is the customers that we are now serving as a profession, and the other bucket is customers who have needs but we are not serving them.

And on the other dimension we look at the needs that they have. So there are needs that we are serving and ones that we aren't.

In the lower left hand corner is today's business. That's what we are doing today. Today's customers, today's needs.

The other three quadrants, the green space represents opportunity space available to us to put new assurance services.

So we looked into each of those four quadrants. We put a group to work looking at the current services and what we needed to do to refresh and build up the current audit product, which, as I mentioned to you a little while ago, is absolutely flat in terms of revenue and down in head count. What

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can we do to revitalize that product?

We had another group look at how we could extend that product to give new value to existing clients or to take the old product out to a new class of paying clients.

And we had another group that looked at entirely new products, new needs for new customers.

I wanted to focus in on each of those four cells and give you kind of a report of what we found.

In the lower left hand quadrant, what we are talking about there is refreshing the value of the existing annual audit of the financial statements. And what that group found was that there is a set of tough problems out there, that our customers are not satisfied with the way we're performing, and if we could improve performance along these dimensions, we could refresh the value of that product.

One, it's a better track record against fraud.

Two, illegal acts.

Three, financial distress, which would include bankruptcy, but things short of

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bankruptcy.

And, four, risks, uncertainties and estimates.

These are areas where we could, by doing a better job in these areas, revitalize the value of the current audit service.

What we found is that the function will retain its value into the future, but the delivery methods will change and we have to figure out how to adapt to that.

To enhance the current services we need to refresh the value of the revenue stream and we need to do that in order to create a credible platform to move out into the new service areas so that the public, the people who are buying them, will say they do a good job at their historical function, therefore they are good potential providers for new services.

And we need to broaden the audit coverage, to get away from just the historical financial statements to include other types of information of value to those decisionmakers and attack those problems.

If we can do those things, then we could, in effect, revitalize the present services.

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What the Committee found is that audits and GAAP information are going to remain a core service as far into the future as we can see for public companies, but for private companies audits will become less important for two reasons.

One is that many banks, which is the principal reason smaller companies have audits, are changing from the way they used to underwrite loans to credit scoring where they are not even involving financial statements in the decision process.

And the other thing is that in many cases for smaller firms there is a small class of users, whether it's owners or family members or banks, where a more likely product to sell to them would be agreed upon procedures where you focus on their particular needs rather than giving them a one-size-fits-all GAAP product.

So that's what we saw when we looked into the future of audit services. But the auditors are going to have to be able to capitalize on the audit knowledge base that they create as a function of doing the audit to create more and more value for clients and try to move up the value chain, as we talked about earlier in the presentation.

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2 Now, if we zoom in on the upper left
3 hand quadrant, what we have there is we have risk
4 assessments, information systems quality and entity
5 performance measurement.

6 These are three areas that we want
7 to describe to you, three services that we have
8 developed and we think are about ready to market.

9 In order to do that, I'm going to
10 ask Harold Monk to come up. Harold is a member of the
11 Committee. He's not only been a member of the Special
12 Committee on Assurance Services, but also the Special
13 Committee on Financial Reporting, the Jenkins
14 Committee. He has been on the Auditing Standards
15 Board. He's been on the PCP Executive Committee. And
16 he is the managing partner of Davis, Monk & Co. in
17 Gainesville, Florida, which he has been at for nineteen
18 years.

19 Harold is going to talk to you about
20 these line extensions.

21 MR. HAROLD MONK: Thank you very
22 much, Bob.

23 It's a pleasure to have an
24 opportunity to talk with you about some of the things
25 the Subcommittee on Line Extensions did in this

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process.

The Committee was charged basically with identifying assurance opportunities for current customers where we are not serving all of their needs and opportunities for new customers with enhanced services.

To better explore new assurance services, the Committee determined that it needed to better understand the nature of current needs and the relationships that lend themselves to the delivery of these enhanced services.

In order to do that, we went to a professional organization and had a number of focus groups organized, the objectives of which were to identify the characteristics of clients who receive enhanced services, to identify characteristics of firms and CPAs that are currently providing these types of enhanced services, and to identify critical success factors.

As far as the methodology, we had three focus groups of different size firms around the country: a small firm, a medium-sized regional firm and a large regional firm around the country.

We also did a number -- or this

2 organization did a number of interviews with nine
3 partners within these firms to identify what they
4 thought were important issues related to these areas.

5 The study found a significant
6 variety and scope of enhanced services currently being
7 provided to clients that we interviewed.

8 As far as some of the
9 characteristics of the ideal advisor according to
10 those clients:

11 Once they know the client's
12 business, they are team players with their clients and
13 they have the client's best interests at heart;

14 They really care about them;
15 They're trustworthy, honest and use
16 good judgment;

17 And they take a very broad
18 perspective.

19 As far as the image of the CPAs,
20 according to these people:

21 They're educated, knowledgeable,
22 technically competent, but inevitably we can't escape
23 the term "bean counter;"

24 They provide standardized services
25 but our clients are beginning, according to this, to

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recognize an expanding role that we can play.

Some of the critical success factors were identified:

The caring relationship;

Always being available. And in one of the instances they said even being able to call them at home was a very important element of that;

Offer creative solutions to problems;

And also at the same time being generalists who see the big picture, not just totally tunnel vision or focused in on one particular area;

And we spend the time where and when it is needed with our clients;

And we should conduct formal and informal business reviews;

But there always, always has to be the right chemistry with these individuals.

As far as the ideal client:

They want enhanced services. We can't sell this to everybody. We want people who want enhanced services;

Generally growing and profitable organizations;

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And willing to change is a very important factor. They should ask questions and think ahead;

They need to be honest and fair as well, but vibrant, exciting and innovative and most important possibly fun to work with.

When was the last time you thought of our clients in that nature?

CPAs who provide enhanced services - and this is according to partners who were interviewed -- have these characteristics:

- They are comfortable taking risks;
- Not afraid to make a mistake;
- They're extroverted, aggressive, honest and level-headed;

And they look to the future and they see the big picture;

An important characteristic of the CPA who provides enhanced services is his conviction that non-traditional services represent a tremendous growth opportunity for our firms.

The partners in the study identified a number of personality traits that they believe are important. And these are the ones that we just

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covered.

Now, to compare that to the typical CPA according to these partners -- now, these partners are generally ones who are more involved in some of these enhanced services. And this is the way they see their other partners.

Being detailed oriented; technicians, they're perfectionists, afraid to make mistakes, obsessed with rules, bashful, introverted and dwell on mistakes of the past instead of looking to a successful future.

These characteristics might be difficult for some CPAs to make a transition from providing only the traditional services to moving into the area of providing enhanced services.

But they also see a lot of opportunities, many opportunities, as a matter of fact, and feel that we should leverage on the industry and business knowledge that we currently have.

A number of findings and recommendations came out of this study. A number of - - some of the examples of these:

To monitor -- if we can get the technology to work -- monitor client relationships

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with quality assurance interviews;

And, interestingly, that we should charge by the project instead of by the hour. We need to get a way from this traditional concept of everything has to be billed by the hour.

We need to require needs assessment before any new business proposals.

And inform everyone in the firm of the things that we can do. It is amazing how many people in our own firms are not aware of the services that we ourselves and our firms are offering.

So the Line Extensions Group looked to three business plans to fully develop.

We also looked at a number of new service templates and practice segments.

There are numerous potential services that were identified, as Bob had said, especially from interviewing and getting information from reporting on the firms.

These we went as far as we could with in the time that we had.

Some of the templates that we have, or templates that we do have give this information. They have a general description of the service, who

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will use that information, what is the value that we see to the user, who do we anticipate would pay for this service, what is the value to the payer, what is the cost benefit to the CPA and what is the potential market.

Additionally, what marketplace permissions do we have, that is, is this a service that we would be expected or welcomed to offer; what market access is there; what litigation risk is involved; and is there a need for special competencies for these services; and specifically, what is the application of these to the smaller firms.

Now, some of the templates that we actually developed and are included in the report:

AIMR compliance: assurance on investment Mnnagers' conformity with AIMR performance standards;

Policy compliances: provide assurance with respect to specific company policies, such as codes of conduct, human resource policies, operating procedures;

Outsource internal auditing. Here is one that some firms are already involved with. So this would provide internal auditing services, to either

1
2 supplement or supplant internal audit partners;

3 Trade department accountability; for
4 CPAs to provide assurance of a client's trade
5 departments, that the brokers fulfill their
6 responsibilities.

7 And also in the area of mergers and
8 acquisitions, providing insights into business risks,
9 appropriateness of accounting methods and other
10 information.

11 As far as the business plans that
12 were developed to a greater extent:

13 One is on the assurance on risk
14 assessment.

15 One is on systems reliability.

16 And one is on performance measures.

17 As far as the risk assessments, we
18 are looking at these types of risks.

19 We have the environment risk,
20 business process and asset risks and information
21 risks.

22 This risk assessment we're talking
23 about here goes well beyond the traditional accounting
24 and auditing risk assessment performed while we are
25 studying internal controls. Clearly, enterprises want

1
2 a better picture about what risks they are facing and
3 how they are dealing with those risks.

4 Risk assessment is defined, as far
5 as the nature of the service, as that to improve the
6 quality of risk information for internal
7 decisionmakers through independent assessment of the
8 likelihood of adverse events of a significant
9 magnitude and quantification of the possible
10 magnitudes of the events if they occur.

11 The principal users of this service:
12 well, it would be the owners of small businesses, and
13 for larger companies senior management and the Board
14 of Directors.

15 As far as possible solutions to
16 additional services to smaller businesses:

17 We are looking at the installation
18 of risk reduction systems and processes.

19 Also a transfer or sharing risk.

20 And avoidance of risk through
21 prevention at a source.

22 Is this a service that would have
23 economic benefit to CPA firms?

24 The Committee feels strongly that it
25 clearly is, feels that possibly as much as ten or

1
2 twenty percent of the financial audit fee annually
3 could be charged for this type of service.

4 But keep in mind that there are many
5 other organizations that may not have audits as well
6 that would be potential customers for this.

7 So it may be appropriate to provide
8 this to a greatly expanded audience of customers. And
9 we estimate that the potential market runs into the
10 billions of dollars.

11 As far as competitions or
12 competition, CPAs have a natural advantage over other
13 competitors because CPAs have long been associated
14 with reduction of risk and material misstatement in
15 financial statements, and more recently with the
16 design of internal accounting controls.

17 Auditors have also been identified
18 with the assessment of a risk, of sudden business
19 failure, although we may need to enhance how we are
20 doing that.

21 And the risk of illegal and
22 fraudulent acts by clients as well.

23 A major advantage for CPA firms is
24 their reputation for taking a comprehensive and
25 independent view of the firm's activities.

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2 As far as competency consideration,
3 we already have many of those skills that are needed,
4 but we do need some additional skills: regarding the
5 consideration of the elements of business strategy and
6 the external environment and the areas of special
7 risk.

8 Also to help smaller firms
9 especially, Practitioner Publishing Company has been
10 involved in this process and has helped develop
11 numerous practice aids.

12 An example of some of these would
13 include some, for example, proposal letters,
14 procedures program -- and these are the ones developed
15 specifically for the risk assessment area --
16 illustrative engagement letter, risk identification
17 questionnaires, and then transmittal letters and,
18 finally, illustrative report.

19 MR. ROBERT ELLIOTT: Thank you very
20 much, Harold.

21 This is one of the business plans
22 that we have developed up to the point where we think
23 it's ready for prime time.

24 And as Harold mentioned, PPC has a
25 practice aid that is ready to go on this. We are ready

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to roll this out.

And the AICPA has a CPE course in development that will be ready in the next couple of months.

So what we are talking about here is a practice that is ready to go.

The Subcommittee on Line Extensions also developed two other business plans.

One of those is on systems reliability assurance. Now, in the interest of time we are not going to get into quite as much as detail as we did in the risk assessment. But there is just as much detail behind it, and that will be in the final report obviously.

What we are talking about here is where the parties to this would be the management and Board of Directors initially. And the output of the accountant's work would be reports on information integrity and controls.

And the benefits of that would be improved information integrity for the companies, information on the effectiveness of an organization's information systems.

And we believe that this is a

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service that could have a very large market potential also.

Let me position that.

The migration path that we're on here is that right now the services that we basically provide are reports on internal control. That's as close as we get to this objective of system reliability.

This new service that we've identified and spec'ed out and developed practice aids for takes us up to systems reliability insurance -- I'm sorry -- assurance.

The ultimate objective, however, is to go all the way over to get to real time assurance on information and databases.

Now, technology is missing to all that distance, but they will come on line in the next few years. And this is our goal line.

And this service that we've identified represents an intermediate stepping stone towards moving from today's services to the ones that we foresee as being necessary and demanded in the five or ten-year future.

We also developed another business

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2 plan in detail, and that's a plan for entity
3 performance measurement that would go well beyond the
4 financial statements and information. It would cover
5 information like the operating data that lie behind
6 the financial numbers, leading indicators, information
7 on risks, opportunities, uncertainties, non-financial
8 performance indicators like customer satisfaction,
9 cycle time, product and process quality.

10 So the idea would be to extend the
11 assurance function to this type of information.

12 And the parties might be management
13 and boards internally, but ultimately going outside to
14 investors and creditors.

15 The output might be reports on the
16 relevance of entity performance measures. For example,
17 does management have the set of performance indicators
18 that's necessary in order to meet their strategic
19 objectives?

20 Or the output might be information
21 on the reliability of the information system that
22 supports these strategic decisionmaking objectives.

23 And the benefits, of course, will be
24 more effective entities, economic growth, because they
25 would have much better ways of achieving their

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strategic objectives, and the emergence of new monitoring information for the benefit of outside stakeholders.

Now, if you think about these line extensions, you can sort of place them, as I have done on this graph. If this is the risk assessment service, we could then take the performance measurement service, and these things overlap, because performance measurements, in order to know whether you're getting where you need to be, you develop what the risks are and whether you're taking adequate account of them.

And then we have the other line extension, which is system reliability. This is the quality of the information that exists in the systems.

And we put all those three together. And the intersection, that may represent the emergent information set to run business enterprises.

And so what could happen is the current service, which is the audit of financial statement, could migrate into that red space which represents the intersection of these three services.

So these are not just three miscellaneous services that we've built up to the

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point of taking to market, but they represent a migration path to help to enhance and refresh the vitality of the historical product line.

So you can see this type of migration pattern.

Then we could zero in on the low right cell of that matrix that we looked at earlier.

This is taking our traditional audit product out to new types of customers. And some examples of that might be process quality. That's the ISO-9000 type of thing.

As you know, any company that wants to sell into the European community has to be ISO-9000 certified, and more and more American purchasers are demanding it.

For example, the Big Three automobile makers are requiring that all of their suppliers be ISO-9000 compliant by the year 1997 or '98.

So there is a tremendous market here for us to do this.

And it's very similar to the historical audit product that we have. It's checking on systems and reporting on the quality of systems.

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Another one would be built directly into product quality itself, the types of things that J.D. Power does.

And another would be to extend the traditional audit function to auditing assertions available on the World Wide Web. And there is already beginning to be a market for this as people begin to base decisions on that information and they don't know if it's any good.

What the Committee has done is it developed templates. We didn't develop these all the way up to the point that they are ready to go to market, but we developed templates for ISO-9000 and the World Wide Web assertions products.

Now, that takes us up to the upper right hand corner.

Now this is pretty exciting stuff up here because this is meeting new needs for new customers.

And we developed three services here that we think are getting close to or are ready for market.

We developed our ElderCare Plus service. And we are going to describe that in detail.

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2 We developed an Electronic Commerce
3 Assurance service. And we will describe that in
4 detail.

5 And we developed a Health Care
6 Performance Measure service. And we'll describe that
7 in detail.

8 To describe the ElderCare Plus plan,
9 we are going to ask George Lewis, a member of the
10 Committee and our champion for the ElderCare Plus
11 product.

12 George is a member of the Committee,
13 was a past member of the Auditing Standards Board and
14 a past member of the Board of Examiners. He is a
15 partner in Broussard, Poche Lewis & Breaux in
16 Lafayette, Louisiana where he has been for thirty-
17 eight years.

18 George.

19 MR. GEORGE LEWIS: In the year 2000
20 it is estimated that there will be approximately 16.6
21 million people who are seventy-five years of age or
22 older.

23 Many of these, of course, will be
24 widows. Many of them will live away from their
25 children and family continuing the tradition in the

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past.

But, in addition, there is a lot of wealth that is being concentrated in the elderly.

For those over sixty-five years old, it is estimated there will be approximately -- the wealth is approximately \$11 to \$13 trillion and the predators know that and they are out to get it everywhere, from the dishonest stockbroker to the roofer who puts a ten-year roof when momma paid for a twenty-year roof because he figures that she will die before the roof does.

The purpose of ElderCare Plus is to have the CPA, this independent, objective practitioner, provide assurance to people that their elderly are being protected, that the interest of heirs are being protected, and also to monitor care providers so that many of these people will be able to live in their own homes independently and with dignity.

It actually involves three different approaches to the service.

First of all, it's consulting/facilitating services, some direct services, and finally, assurance services.

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On the consulting/facilitating services -- how do I get this to work? -- the practitioner would meet with the elderly person or the family members to set goals for assistance, to establish the standards of care that are expected -- all of these on a per person basis - to develop a customized plan for care and service providabilities, and to identify criteria that could be used to measure the performance by those care providers.

The practitioner could also provide a list of services available to the community because many times the children have moved away, they don't know what's available in the community to assist their loved one, and finally, assist in the selection of the care providers working with heirs or the elderly person to make sure they get effective care.

The assurance services part of this would actually measure the effectiveness of the care that they provide.

Such things as review routine financial transactions for reasonableness, adherence to established criteria, and accounting for those to the heirs or to third parties.

It could include supervision of

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2 investments; not investing, but supervision of those
3 investments and accounting for the estate,
4 investigating and providing information for handling
5 unusual or unexpected situations when the loved ones
6 are away and can't make needed decisions, and
7 inspecting elders to determine that caregivers are
8 meeting agreed-upon performance criteria.

9 It is anticipated, of course, there
10 will be reports, a monthly report on activities of the
11 month including the financial transactions, and also a
12 less frequent report on the degree to which the care
13 providers are meeting their agreed-upon criteria for
14 care.

15 On the direct services the
16 practitioner might have to perform some of the
17 services that we have talked about care providers
18 giving, such as paying the bills under certain
19 criteria and responding to emergencies.

20 The CPA is prime in that we have
21 access to this market, to the current clients of the
22 CPAs, either the elderly persons themselves who have
23 enough wealth that they have been using CPAs or to
24 their children who have enough wealth and are using
25 CPAs.

1
2 Also through other professionals in
3 the community that we deal with who have access to the
4 elderly, such as doctors, ministers.

5 And luckily there appears to be
6 little or no competition in this area where the CPA
7 would be providing the ElderCare. People are doing
8 bits and parts of it. There will still be service
9 providers that we're not going to provide and no one
10 seems to be actively supervising the internal process.

11 Bank trust departments are getting
12 less personal and attorneys typically would only get
13 involved if it's a court-ordered intervention.

14 What have we done?

15 Practitioners Publishing Company has
16 worked with us and developed practice aids. In
17 December they will publish in their "Non-Traditional
18 Engagements Manual" a chapter on ElderCare.

19 The Institute has conducted a couple
20 of focus groups to see what is the receptiveness of
21 potential users of this service and is presently in
22 the process of conducting a more extensive survey with
23 statistical basis to determine certain information.

24 Yankelovich Partners are presently
25 doing the interviews. They've done so far a hundred

2 and forty-five interviews, looking at people who are
3 forty to sixty-four years of age that would typically
4 be expected to provide care for the elderly person and
5 have income in excess of \$80,000.

6 The preliminary survey results.

7 Eighty-seven percent said they would
8 likely use ElderCare in case the need arises.

9 Eighty-six percent felt that CPAs
10 would be reliable providers of this service.

11 Ninety-six percent said it was
12 important that CPA providers have some type of
13 accreditation.

14 We asked what would you be expected
15 or willing to pay for this service, and no amount was
16 given. The median so far has been \$500 or more a
17 month, and approximately twenty percent said a \$1000
18 or more per month.

19 And, finally, what was the best
20 description of the service? And eighty-six percent
21 said that ElderCare was a good description.

22 What is required by the Institute?

23 First of all, we got to get it to
24 market. This is a market that will not wait for us. It
25 is growing. We need to get out there.

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Second, we need to brand it as a CPA service so that people all over the country know that if I have this need, I go to my CPA.

And, finally, we need to do an accreditation program through the Institute to accredit ElderCare providers.

What's the payoff?

If we figure that ten percent of these 16.6 million people have the wealth and the desire to use this service, at only pay \$100 a month, which is practically nothing, the annual market would be approximately \$2 billion.

If fifteen percent participate and paid \$250 a month, the market would be \$7.5 billion.

And if probably the most likely scenario only five percent of these people participated, but the fees ranged from \$750 a month or more, the market again would be \$7.5 billion.

MR. ROBERT ELLIOTT: They need it. They're willing to pay for it. They're willing to go CPAs for it. And it represents a tremendous opportunity.

Now, this afternoon we have actually a demonstration of how we might use Electronic

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2 Commerce to link customers for the service to CPAs. We
3 have taken it that next step.

4 But that's this afternoon.

5 What we want to do now is we want to
6 go to the next of these new lines that we've
7 developed.

8 And in order to do that what we are
9 going to do is we are going to have Ev Johnson come
10 up.

11 Ev Johnson is our champion for this
12 and he's the person who led our team to develop the
13 service.

14 He's the Chair of the AICPA's
15 Information Technology Research Subcommittee. He's a
16 partner of Deloitte & Touche where he is international
17 director of global computer audit, and previously was
18 the national director of computer assurance services.

19 Ev has thirty-three years in audit
20 control and security.

21 MR. EVERETT JOHNSON: We are
22 beginning the digital age where most transactions are
23 electronic, where the average citizen also will do a
24 lot of his or her business electronically.

25 But there are significant risks in

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2 this new electronic environment. That's where we come
3 in. That's what Electronic Commerce Assurance Services
4 are all about.

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6 In the limited time I have this
7 morning I would like to provide you with an
8 introduction to our new service line for Electronic
9 Commerce Assurance Services, first by providing you
10 with an overview of the evolution of electronic
11 commerce, and introducing you to one of the key
12 technologies that is important to securing electronic
13 commerce transactions.

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15 Then I would like to discuss some of
16 the risks associated with electronic commerce and the
17 opportunities that these provide for us to provide
18 assurance.

19

20 I will then discuss some examples of
21 Electronic Commerce Assurance Services and a few
22 thoughts about the market potential and the CPA as an
23 assurance provider in this area.

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25 And then the next steps we are
planning to take to bring this service line to a
substantial revenue producer for the profession.

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Let's look at what we've identified
as the three waves of the development of doing

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business electronically.

The first wave - more than seventy-one percent of you and your clients were involved with - is what I would call the business-to-business wave.

This has evolved over the last few years. It is not particularly new. It started probably in the '80s with the large manufacturers really forcing their suppliers to accept purchase orders electronically, to send shipping information electronically, to bill electronically and even accept payments electronically.

This evolved to an intermediate value-added network being put in the middle so that businesses could communicate with each other. They didn't all have to use Company A's approach or Company B's approach. Standards developed so that companies could use electronic data interchange -- it's the terminology involved -- to communicate with a variety of other participants in the electronic commerce marketplace.

But this has been primarily a business focus using private networks.

Then along came the Internet, the second wave, which is where we are now, which has

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2 broadened the breadth of transactions that are being
3 covered. It's not just purchases of goods and services
4 by one company from another, but it evolves consumers,
5 it involves electronic shopping networks, it involves
6 people purchasing information over the Internet, it
7 involves advertising which has been a big component on
8 a lot of World Wide Web pages, and the like.

9 And we're moving towards what we've
10 identified as the third wave, the new electronic
11 society, the digital society.

12 We will probably all have little
13 cards, digital cash cards, that replace the money that
14 we carry in our pockets, that probably replace checks.
15 There will be the digital wallet that you would use to
16 pay bills electronically.

17 We will have -- virtually all of our
18 transactions will be done electronically.

19 We'll even have things like
20 intelligent agents. An example of an intelligent agent
21 might be if you were planning a vacation, you would
22 instruct the intelligent agent as to where you wanted
23 to go and the kind of vacation you wanted, and it
24 would shop for the best airfare, the best air routing,
25 the right hotels that meet your criteria, the

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2 activities that you want to have, and present you with
3 an itinerary for your approval which you would then
4 proceed to book and pay for.

5 So you get an idea that a lot of
6 what's going to be going on will be highly automated
7 and will be done electronically.

8 To better understand some of the
9 issues, I would like to explain one of the
10 technologies that is key to securing electronic
11 commerce. And I'm going to try to do this in a non-
12 technical way so that you will have a better
13 understanding of the issues.

14 This is called public key
15 encryption. And essentially it allows you to encrypt
16 or encode a message using a key. And there is a key
17 pair. There is a public key and a private key.

18 So when it's encoded with one key,
19 it can only be decoded or decrypted with the other
20 key.

21 Now, if you think about an example.
22 We have two people, Bob and Mort. Bob has a public key
23 and a private key. Obviously his private key is
24 confidential.

25 He also knows Mort's public key as

2 Mort has a public key and a private key. And Mort
3 knows Bob's public key. He doesn't know Bob's private
4 key.

5 Now, in order for the two of them to
6 communicate, Bob encrypts his message with Mort's
7 public key. Now, the only way that can be unencrypted
8 is with Mort's private key. So that insures
9 confidentiality.

10 He then takes a portion of the
11 message and encrypts it with his own private key. That
12 is what we call a digital signature. And he sends the
13 message to Mort.

14 Mort receives the message and
15 decrypts it with his own private key. He's the only
16 one who can decrypt it because it was encrypted with
17 his public key.

18 He then checks the signature with
19 Bob's public key. He knows Bob's public key. If he
20 decrypts that part of the message, Bob is the only one
21 who could have encrypted it because we've got that
22 right key pair. So that tells you it was really from
23 Bob.

24 So these are a couple of the
25 principles that underlie this public key pair. You are

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going to have to think about this through, but you can use these key pairs in different combinations to encrypt and to provide confidentiality and to decrypt and also to provide authenticity.

So let's look at some of the risks in electronic commerce and how they provide needs and opportunities for the CPA to provide assurance.

First is the lack of authentication.

What is needed here is the ability to assure that it was really Bob's public key that Mort got and not somebody else's public key who is masquerading as Bob.

So if we could provide assurance services around this whole area of disseminating public keys, that would be a real opportunity.

Another is loss of trust. Again, are you really dealing with the person you think you're dealing with?

And we could provide assurance as to that.

Another would be theft of identity. How do you know that your keys and your confidential information is well protected? And provide assurance about that.

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2 And, last, some of the risks that
3 have been with us in any sort of electronic
4 environment are the intentional attacks, the hackers,
5 the intentional break-ins, the theft of credit card
6 information, the misuse of confidential information,
7 all of which we're well positioned to provide
8 assurance about.

9 Let me talk about a few examples of
10 the kinds of services related to electronic commerce
11 that we can provide.

12 The first is -- let's look at the
13 value-added network provided that I mentioned earlier,
14 the EEI environment.

15 We can provide assurance that they
16 have the appropriate procedures to secure
17 transactions, to identify who the parties are and make
18 sure that you are getting the right information.

19 This is a lot like the traditional
20 service auditor report. It's an extension of that, but
21 it focuses on different issues.

22 Another would be services about the
23 security features in electronic commerce software
24 packages, the Netscape browser, the online banking
25 packages that you might use.

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2 When you send information back and
3 forth, you might feel a lot more comfortable using
4 that package if it has been reviewed by a CPA and
5 there was some assurance that these functions are
6 really secure, that nobody else can get into bank
7 accounts and the like.

8 Another might be providing assurance
9 around the people that are providing what we are
10 calling trusted key -- trusted signature providers,
11 someone that says, yes, I got Bob's public key and it
12 really isn't Bob's, an independent third party
13 organization. There are several of these popping up
14 now. A company called VeriScience is a very popular
15 one.

16 We might look at their procedures to
17 make sure that they really do identify who the people
18 are, that they control access to the keys and so
19 forth.

20 And, lastly, if we were carrying
21 these digital cash cards -- and I think we would all
22 be more comfortable if you had assurance about the
23 integrity of that process by a CPA firm.

24 So these are just some examples of
25 the kind of assurance services. You can think of a lot

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more. We had a rather long list. I've taken only a few of these to give you an idea of what the assurance services in this area might be like.

In addition to the assurance services, there is obviously a whole range of consulting services the CPA could provide once you develop expertise in this area and you can get into the business of providing electronic commerce services.

I think a CPA firm would be an ideal provider of this trusted key and signature service because of our reputation for integrity.

What about the market potential?

Well, in a nutshell I think it's terrific. There are new customers that we can provide these services to. There are consumers. Bob mentioned there is a whole segment of the market we haven't tapped. There are software developers. There are users of information. There are agents, lawyers, bankers and the providers of electronic commerce services and the list goes on.

There are new approaches to pricing. In this area one of the appealing ideas is to get into a transaction pricing approach. For a few cents a

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2 transaction, people might be willing to pay that to
3 get the additional assurance about the integrity and
4 security of that transaction.

5

6 When you start to think about the
7 billions of transactions, even a fraction of a sale
8 the revenue potential could be tremendous.

9

Market size and growth potential.

10

11 This is a hard thing to get our arms
12 around, but it's clear the Internet is growing. One
13 estimate is that there are fifty million people using
14 the Internet today. That's expected to grow to several
15 hundred million within the next few years.

16

17 And if you think about that, if you
18 could get each of these people to pay, let's just say,
19 five dollars for assurance, five dollars more than
20 they're currently paying for assurance that their
21 business was secure, it doesn't take you very long to
22 get up close to a billion dollars, maybe even more. If
23 we could do transaction pricing, that's even greater.

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25 And that's just the consumer retail
section of the marketplace.

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27 There is also the business side of
28 it, which there are probably something like 4.5 to 5
29 million businesses who will be doing business

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electronically.

If you think about, if we could provide services for a few hundred dollars up to a few thousand dollars for each of these businesses --

I don't know what the market potential would be, but it's clear to me it's got to be well over a billion dollars.

We do have competition for these services from non-traditional suppliers. We don't know whether the Microsoft's or Netscape's of the world will get into this business. It could be very easy for the EES's and the IBM's to get into the business.

So we need to move quickly.

In any event, I think this is a terrific market.

Well, what about the CPA as a provider of these services?

Why should CPAs provide these services?

Well, I think it's a natural extension of our services around internal control, services related to attestation and the like. Plus we've got a reputation for objectivity, integrity and independence.

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We have access to the clients.

We talk about the other services.

Establishing market permission. This is really answering the question why in the heck are CPAs providing these kinds of services?

And I think it's very logical.

First, there is a marketing strategy that we will have to have here to get people to think of the CPA when they think of assurance about electronic commerce.

Secondly -- I'll talk about this a little bit more -- we're going to need some criteria, some people call them standards, we've tried to avoid that term, for measurement. What are the performance measures for a secure client integrity electronic commerce? We want to play a role in developing those.

And that will be our stake in the ground. That will help create a market, establish a market permission.

What are some of the competency considerations?

We've got a lot of the skills right now. We have skills in attestation. We understand internal control. We've got in many firms pretty strong information technology skills.

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We probably have to extend those to learn more about the security arena, protecting the information and so forth.

But I think that is an extension, it's not a whole new skills set for many practices.

And then I mention the need for measurement criteria. We're going to develop a set of criteria for integrity and security in electronic commerce, what we've nicknamed CISEC.

And we're going to be moving forward with that quickly to get our stake in the ground.

So in terms of next steps, we're in the process of forming a team of interested practitioners to get this service line going.

That team will help develop practice guidance for other practitioners; not standards, but tools, ideas and so forth that will help get the service line off the ground.

We are going to conduct workshops to get interested professionals together so that they can share ideas, best practices and really energize the service line.

Hopefully we'll develop networks of practitioners that continue to work together between

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the workshops.

We will move forward with developing the CISEC criteria. The first stage of this we will probably want on our own and then we may tie up with a major security organization or electronic organization so that we get some credibility in that respect as well.

And, lastly, we are going to grow these services, get to that billion market and beyond.

I believe this is a terrific opportunity for the profession and hope you share that view.

MR. ROBERT ELLIOTT: Thank you, Ev.

Let me relate this service to one of the previous ones that we talked about.

Think about this. Think about two companies.

Here we've got Company A on the left and Company B on the right and they want to do business electronically. So they are working over the Internet to exchange information.

Now think about some piece of information that originates inside Company A and goes out to the boundary point, which is the Internet, goes

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over to Company B, and then goes inside where it eventually winds up on some decisionmaker's desk.

And the question is about the integrity of this information.

Two of the products that we've described for you so far, the Electronic Commerce and Systems Reliability, look how they link up with each other to form a complete product.

Within each of them, Company A and Company B, the CPA could come along and provide assurance about systems reliability. That's only within the companies.

And then along we come and provide the electronic commerce assurance over the Internet and what we get is a complete chain, plug-to-plug reliability, from the inception of the information all the way down the chain to its use.

And so, again, it's an example of how the set of services that we developed is not just a random selection of services, but these things merge into a combined set that will provide even greater value when they work together synergistically.

Now, the third new line that we've developed that we want to describe for you this

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morning is the Health Care Assurance area.

To do that we're going to have Don Pallais come up.

Don is the Executive Director of the Special Committee on Assurance Services and previously a member of the Auditing Standards Board and previously a member of the Accounting and Review Services Committee.

He's on his own account in Richmond, Virginia where he has been for ten years.

Don.

MR. DON PALLAIS: Thanks, Bob.

Well, this is the last of the three lines we want to talk about.

And if you remember back during the electronic polling, we asked: "What are your major concerns: health care, your children's education, the environment, your personal safety?"

And the opinion of the group was that you are more worried than not about each one of these four things.

Yet, this is an area in which the CPAs have virtually no position. We have no presence in any of these. We deal with financial things.

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2 So this last new line that we are
3 talking about seeks to reposition CPAs into areas that
4 individuals are personally concerned about.

5 Each of these are things that people
6 around the country are concerned about.

7 For example, children's education
8 has turned up in the presidential debates and Clinton
9 and Dole have disagreed on whether public education is
10 effective or not.

11 In the environment area there are
12 concerns about whether certain things are dangerous to
13 the environment or not.

14 And personal safety; remember when
15 U.S. Air had a couple of crashes about two years ago?
16 What did they do? They went out and hired somebody to
17 provide assurance on their safety procedures.

18 And we see these all as areas that
19 CPAs could get involved with.

20 We've picked health care to start
21 this process for a number of reasons.

22 One is because it's an enormous
23 area. The annual expenditures on health care in the
24 United States are currently \$1 trillion and that's
25 growing.

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It affects a lot of people, 260 million, essentially everybody in the country.

So because this is an area rooted in consumer concerns in a competitive free market environment and an enormous market, we saw this as a good foothold for CPAs to get into providing assurance on performance measures.

Let's think about it what the health care system looks like in this country.

It's a complex network. We start out with a patient. And the patient goes to a doctor, a direct provider. It might be a doctor or a nurse or some other sort of practitioner.

The direct provider has his own link to a provider organization, either a hospital or a physician group, a clinic, a nursing home, home health care provider.

There is also a provider representative such as an HMO that stands between, that stands between the patient and the patient. It might be an insurance company or managed care organization.

And, finally, there is a consumer representative. Generally this is somebody who might

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be paying the bill like an employer or the government or a union who makes decisions about what the provider organization can use.

Each one of these affects the other.

So to provide assurance on the health care delivery system in the United States, we would have to have footholds in each one of these.

And this is similar to what Bob was talking about just a minute ago in electronic commerce where he said if we can provide assurance on each one of these portions of the system, the public would have confidence in the entire system.

What does health care delivery look like in the United States?

Well, it used to be that most people who got health care were on sort of a fee-for-service reimbursement model. You went to the doctor and your insurance company paid for whatever services you got.

What did CPAs do in this? Well, we played off our traditional strengths which was auditing costs. That's what people were concerned about, was cost, and that is what we audited.

Now, there has been a shift. Now people are going to managed care and costs are often

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capped. This is a negotiated contractual agreement. And what people are concerned about is whether they get the care they are entitled to for this capped cost.

If you think about it, it used to be if you are a provider, the way to increase income was to provide more services.

Now, if you are a provider, the route to increased income is to provide fewer services because your revenue is capped.

So this creates a conflict between the provider and the recipient. The recipient wants more services; the provider wants to provide fewer services. This creates a conflict which is a natural opening for CPAs. Wherever there is conflict between a supplier and a customer, there is a potential service.

The need is demonstrated for work in this area. There is constant media attention. It is hard to go a week without seeing articles about whether health care is appropriate or whether the Medicare system is going to continue to function, whether HMOs are shortchanging their customers.

There are standards-setting activities. There are a number of organizations trying

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to set standards in this area: National Council on Quality Assurance in the HMO industry, the Joint Commission on Accreditation for Hospitals.

And major companies, dissatisfied with the existing system, are creating some of their own rating systems. For example, Xerox and Marriott and GTE have all created their own criteria for picking HMO networks.

But the current system is weak. The standards are inconsistent. The ones used for HMOs are very different than the ones used for hospitals.

The measures tend to be very rudimentary, I think tend to focus on input measures rather than output measures. They're not good surrogates for what customers are interested in.

And most importantly, the data is unaudited. This is very important. There was an article in The Wall Street Journal a couple of weeks ago under the criteria for HMOs.

The HMOs are required to survey their patients about their level of satisfaction. And it turns out a cottage industry has grown up in creating these questionnaires because the type of answer you get can be influenced substantially by the

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way you phrase the question.

So a CPA can come in and at least provide some sort of consistency over this by auditing the data.

Okay.

How would we assist in auditing these measures?

Well, within the last month two major magazines have run articles on HMOs and they've analyzed data and ranked the HMOs based on how good they are, whether you should go to these HMOs or not.

Well, one of the more interesting situations, it turns up that something called Kaiser Foundation of Northern California, the August 1996 issue of Consumer Reports gave this particular HMO its highest rating.

U.S. News and World Report, on the other hand, one month later gave it its lowest rating.

So what's the consumer supposed to believe?

There are CPA service opportunities in this area.

One is to attest to the effectiveness information, that is, is the HMO or the

2 hospital or the doctor providing effective care.

3 Another is to actually accumulate
4 the relevant data and report on that.

5 Or we could report on the systems
6 and controls that underlie the accumulation of data.

7 And, finally, there are numerous
8 consulting opportunities here when companies figure
9 out that they are not as effective as they could be.

10 How do customers benefit? Well, for
11 one thing we'll replace the individual assessments
12 currently required by each major customer with a more
13 consistent model. There will be common measurement
14 standards for reports so that everybody would be on a
15 level playing field.

16 We will bring independence to this,
17 which is the major benefit we bring.

18 Now, something to keep in mind when
19 we are doing this is, if you are with a small firm,
20 you may be thinking to yourself this is really a big
21 firm opportunity, this doesn't apply to me. But that's
22 not really the case.

23 Whereas big firms may be well
24 positioned for major hospitals, if this service does
25 take off and we were rating the effectiveness of

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doctors and clinics, there are lots of opportunities for CPAs and small firms to go out and service them.

Finally, there is a question of marketplace permission, and that is, will people go to CPAs and believe that we are the right people to provide these services.

We've got some strengths in this area. We have integrity and independence that people believe are very important.

One of our strengths is data analysis. Another is systems control -- systems and controls expertise.

But we have some weaknesses too.

People do not immediately think of CPAs as preferred providers in the area of health care. Now, this is something we would have to work on as a profession, to create this awareness that we can do this.

I think that, given our independence and integrity strengths, people would more likely gravitate to CPAs who learn something about health care but still have no, as Bob says, skin in the game. We don't have any interest in this outside of the quality of the information.

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So we could as a profession get the permission required to enter this market.

We also have a lack of competencies. This is not what we learned in school. This is not a kind of continuing education we can get. But we can acquire it.

And, finally, we will run against some resistance from the health care industry itself because they have some interest in maintaining this system within their own borders rather than giving us permission to enter it.

All and all, it's an attractive opportunity. There is a public interest argument. People are interested in this. They need help.

It's a large market. We estimate this to be about a \$3 billion market. We estimate that looking at the trillion dollars in expenditures and what people currently pay for audits.

We can get whatever skills we need.

And there is no organized competition. Although there will be resistance, there is nobody who is fighting to get this to market.

Next steps.

We are creating a group to take us

2 the next couple of steps. The first thing we need to
3 do is participate in the creation of measurement
4 criteria. We want to be able to have some ownership of
5 the scoring rules. If we can own the scoring rules, we
6 stand a good chance of controlling this area of
7 practice.

8 We want to create measurement
9 criteria that are rooted in customer interest rather
10 than health care provider inputs.

11 We need to provide guidance to
12 practitioners about how to get into his market, how to
13 actually serve it, how to report on it.

14 And we need to brand this as a CPA
15 service to get the high level of visibility where
16 people think about this as a CPA service.

17 But CPAs have done this in the past.
18 If you think, most states have lottery systems. And
19 when you see the lottery numbers being drawn on TV,
20 there is generally a CPA observing it. Right?

21 We have branded that as a CPA
22 service. It's not a natural CPA service. At one time
23 nobody would have thought of CPAs and lotteries. Now
24 they think immediately that the CPA firms are lottery
25 inspectors.

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And, finally, we want to expand this service into other performance measures.

Like as I said, health care is just a model for the others. Once we have established this, we can move into others. For example, although there is a trillion dollars spent on health care, there is \$600 billion spent on education. So that would be another area we can move into.

We see this as an exciting opportunity. We are very hopeful that we can do it.

And it bodes well for the profession if we can actually pull it off.

Bob.

MR. ROBERT ELLIOTT: Thank you, Don.

What we've done is we've laid out six services that the Special Committee has brought to the point where we think they are ready for market.

We've made an attempt to estimate the total revenue potential for the profession from these six services, just these six alone.

And you heard each of the presenters talk about some fairly big numbers.

We are starting from a base right

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now where our accounting and auditing revenues of the profession as a whole are something like \$7 billion.

These six services alone have the potential to double or triple our current annual revenues from assurance services in the United States.

From \$7 billion to double or triple that amount.

Now, we're going to stop now for a break and then Bill Gates will be on after the break.

And then this afternoon, in the afternoon session, what we are going to tell you is what the Special Committee has done in order to reposition the profession to take advantage of this double to triple revenue opportunity.

On your tables are question cards. If during the morning or afternoon sessions you have questions, write them down and what we are going to do towards the end of the session is collect the question cards and respond to your questions at that time.

Right now though I'm going to turn it back to Ron.

(Applause.)

CHAIRMAN COHEN: Thank you Bob and your Committee for a really outstanding presentation.

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We look forward to the conclusion of the report following lunch.

I think we all need to catch our breath now and perhaps accomplish some tasks that technology isn't going to impact.

(Laughter.)

CHAIRMAN COHEN: We'll take a fifteen minute break.

Please be back here promptly at 11:00 for the presentation by Bill Gates.

And, incidentally, we need to clear the room in order to set up the technology for Bill Gates' presentation.

Thank you.

(Which were all the proceedings at the First Session of Council which concluded at 10:41 o'clock a.m.)

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

Friday, October 18, 1996

11:00 a.m.

CHAIRMAN COHEN: The AICPA and Microsoft will be working together in the coming months to develop a comprehensive technology and educational program which will help CPAs deliver this expanded technical and business advice services to the clients.

This initiative and others that are underway at the Institute will help position us CPAs as information professionals for over six million small business operations nationwide by making sure that they have unique access to information trends and support that's essential for the success of today's small business environment.

Now for our speaker.

William H. Gates is the Chairman and Chief Executive Officer of the Microsoft Corporation, the leading provider of software for personal computers worldwide.

Mr. Gates' early foresight about personal computing and his continuing visions have

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been central to Microsoft's success in the software industry.

A significant portion of his day is devoted to meeting with customers and staying in contact with Microsoft employees around the world through E-mail.

Mr. Gates is actively involved in significant operating and strategic positions of Microsoft and plays an important role in the technical development management of the company.

To say that Mr. Gates has had an impact upon the world and on our profession is certainly an understatement.

He will be discussing the upcoming trends in the technological arena and how they will be affecting the professions, particularly the CPA profession.

And so without further ado, I give you Bill Gates.

(Applause.)

(William Gates of Microsoft delivered a presentation to those assembled via satellite.)

CHAIRMAN COHEN: Thank you, Mr.

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Gates.

We now have some time for some questions that Mr. Gates has kindly agreed to respond to.

If you would approach the mike upfront here.

MR. GARY BOOMER: Good morning, Bill.

My name is Gary Boomer. I'm Chairman of the Information Technology Committee, an Executive Committee, at the AICPA, and head our consulting division of a local firm in Manhattan, Kansas.

My two questions this morning primarily deal with a recent article in Time magazine. I would like to quote a sentence from that article. It says: "Microsoft's...re-invention of itself may set the standard for information age corporate agility."

Now, my two questions -- and I'm just looking at that article as dealing with your focus on the Internet. And my two questions deal with:

What lessons are there in the Microsoft experience for the AICPA and the profession as it seeks to reposition itself and prepare for the rapidly changing marketplace?

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And number two:

How did Bill Gates create such a nimble organization?

MR. WILLIAM GATES: Well, the Internet phenomenon came as quite a surprise to us. We did not expect it, that incredible activity, for many years to come.

And there were a number of companies like Netscape who were really created to take advantage of that opportunity.

So we saw ourselves really falling behind and not even understanding the phenomenon.

Now, for us that is a very scary thing because in the history of the high technology business there are a lot of examples of companies who were very successful but then missed the next turn in the road.

The most famous example of that is IBM who in the 1980s experienced the greatest sales and the greatest profits. And, you know, IBM is a great company. But they missed the implications of the personal computer and what was happening in software.

And so we wake up everyday and say, you know, have we -- are we repeating that kind of

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error, are we openminded about these new things.

And certainly we saw the Internet as a major example of that.

One thing we did is we immersed ourselves in that Internet culture. We said, well, let's all get connected on, let's use it day and night, let's pay more attention to what's good about it and kind of suppress a little bit our saying, oh, this can't possibly succeed, there is no security, it's too slow, and just take the point of view that, you know, what is right about this and how can we help to make it better.

And so very broadly in the company we got together and created almost a crisis-like atmosphere. That's a bit of a dangerous word. But we gave people a real sense that if we didn't respond to this, that our leadership would definitely go away.

That's a little bit easier to do when a company is losing money and things are tough. And so to avoid complacency in a period of success requires a lot of leadership, a lot of events, a lot of good memos going out describing what this is about.

And people saw that we were serious because they saw us cancel a lot of projects and shift

2 resources over to the other things.

3 We went out to the world and we
4 said, look, we -- it was a mistake not to pay
5 attention to this earlier. And we're a smart company
6 and, you know, we have a vision of the future. But we
7 missed something.

8 And so a little bit of that humility
9 bought us time where people can say, okay, they are -
10 - they are admitting they didn't see this. So we can't
11 beat them over the head with that again and again. And
12 let's just see how they adapt to it.

13 And we laid out a set of steps that
14 we thought were realistic and then we delivered on
15 those.

16 And because we do have a lot of
17 sharp people, young people, even some troublemakers in
18 the ranks to help push us in this direction, we have
19 been able to respond in the last year quite
20 effectively.

21 It's still a very competitive
22 landscape out there. There are other companies doing
23 good work. And so we're not done. And the last thing
24 we want is to let complacency slip in at this point.

25 But, you know, I'm very pleased with

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how the organization has responded. It's better than I had hoped for.

You know, I always knew there would be a fire drill like this and it looks like we are taking initiative, energy to respond well.

MR. GARY BOOMER: Thank you very much.

CHAIRMAN COHEN: Thank you.

Another question.

Kathy.

MS. KATHY EDDY: Good morning, Mr. Gates.

I'm Kathy Eddy and I'm a member of the Board of Directors of the AICPA.

And you touched on this a little bit in your presentation, but I wonder if you could expand on what form you see professional organizations, such as the AICPA and State Societies, using the Internet to give information, provide services and products to its members.

MR. WILLIAM GATES: Yes.

I think that's a very exciting opportunity.

And today when you want to get

2 information from your professional society, it's
3 typically mailed to you and it's a newsletter and it
4 contains some things you're interested in, some things
5 you're not interested in.

6 With the Internet, what would be
7 happening is the professional society will be putting
8 up their own Internet sites. And so on a fairly
9 regular basis you can go in and find the things that
10 you care about, whether it's regulatory reform or
11 insurance or marketing practices or alliances.

12 You'll be able to go and get that
13 information.

14 Also, the professional society will
15 have your electronic mail address and you'll give
16 permission to say, okay, once a month please send me
17 some mail.

18 That mail will be, say, a page long,
19 but it will have various gleans in it so that it will
20 notify you of new things that are going on. And you'll
21 -- whichever one of those gleans perhaps potentially
22 you'll click and see it.

23 So the expense of a society of
24 putting out that information is very, very low and the
25 ability to get feedback from the members, to have,

2 say, a chapter talking about an issue or a bulletin
3 board where you save the responses that people have
4 met, it really makes the professional society be the
5 centerplace where people come in the electronic world
6 to be able to follow those issues.

7 A major element is going to be how
8 you take your training imperative, wherever your
9 people are renewing their skills, and how you fit in
10 getting people comfortable with information technology
11 with the specific elements of what it is that
12 accountants are doing for customers, synthesizing that
13 so it's not just technology training, but it's not
14 just the old way of doing things.

15 That's a big challenge and that's
16 where we hope that we can work together and come up
17 with something great there.

18 MS. KATHY EDDY: Thank you.

19 CHAIRMAN COHEN: Another question.
20 Mason.

21 MR. MASON ANDRES: Mr. Gates, I'm
22 Mason Andres. I chair the Private Companies Executive
23 Committee at the Institute.

24 My question is probably a little
25 more basic.

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But technologists, such as yourself, early on were discussing the power of technology. You stated it would make our jobs more efficient, we could work less hours and we would have more time for family and friends.

What has happened to that vision?

(Laughter.)

MR. WILLIAM GATES: Well, the interesting thing is, as tools make you more efficient, competitively all the other -- everyone else is using those same tools.

And so it's not like there is -- you can immediately just work less hours. The fact that you are doing a better job and doing more for those customers means that the economy is better off.

And, of course, if you look at it over a period of decades, the economy has been able to shift resources say away from just providing food or away from just being factory things into so many new areas, whether it's more resources going to education or more resources going to health care, more resources going to vacation, tourist type of activities.

And so technology is making the world richer. It is improving the quality of life.

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On a year by year basis it's kind of hard to see that. The way the economists measure these things unfortunately doesn't do a very good job.

In the service sector they have no way of measuring output. So when people talk about productivity today, it's a statistic that almost shouldn't be used because -- you know, take the way they measure software companies. They have no productivity measure there.

The way they measure banks, they measured on how many checks people wrote. So when automatic teller machines came out to make it more convenient, they actually showed productivity going down.

The accounting profession is another example where, say, you know, what is a unit of output of an accountant. That's very difficult.

You know, take the current services. The world's got so much more complicated that, thank goodness, there are computer tools to help do that or else the amount of time involved would just absolutely skyrocket.

And yet these tools are giving people a chance to catch up there.

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2 So you will be able to serve
3 customers better, to stay in touch with those
4 customers in a more fundamental way, to be more part
5 of their team in terms of how they think of running
6 that business.

7 And so the accounting profession
8 will be better off because of this.

9 But I don't want to paint some
10 panacea where, you know, just overnight things change
11 because, you know, every accountant will have these
12 computers or the people outside of the profession that
13 are competing with you will have the same tools and be
14 doing some of the same things.

15 So it's really important to get
16 there first.

17 MR. MASON ANDRES: Thank you.

18 CHAIRMAN COHEN: Yes. The next
19 question.

20 MS. MARTHA WASHINGTON: Martha
21 Washington from North Carolina, a member of Council.

22 I'm a professor and I'm looking for
23 a bit of advice for my accounting majors to be able -
24 - obviously they are using computers, but to go a
25 little bit beyond that.

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2 MR. WILLIAM GATES: Well, I think
3 it's not too much to say that somebody who is in
4 college, that they should really understand how the
5 Internet works and create their own home page; use one
6 of these authoring tools and put up images and
7 information about themselves so that they get a real
8 feel of how that is done.

9 And then really look into how
10 software, accounting software is changing so it can
11 make that information available.

12 Certainly no one who graduates from
13 college today should be without a familiarity with
14 spread sheets, electronic mail, creating web pages,
15 and even doing a little bit of programming. Nowadays
16 you don't have to be a programmer to use computers but
17 it really does help you to have a sense of what is it
18 that computers are good at and what is that computers
19 are not good at.

20 And one of the things I don't think
21 enough -- there is enough of is spreading best
22 practices. Perhaps people who are still in college
23 have more time to go out and look at where the
24 innovative work is being done, particularly for small
25 companies.

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Most of the examples that exist are about how General Electric or Microsoft are using technologies to do neat things.

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And they are. You know, that's a nice -- that's very nice.

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But those are companies who have dedicated departments, information technology departments, that are doing those things.

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It's a lot more interesting how they could reach out and even chronicle examples of small businesses using information technology to be more competitive.

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CHAIRMAN COHEN: I think we have time for one more question before the time that we have punched into our satellite spark guard expires.

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Gerry.

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MR. GERRY POLANSKY: Mr. Gates, I'm Gerry Polansky from Maryland, a past Chairman of the Board of the American Institute.

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This question is more focused on your own company.

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But what role and initiative does your own internal finance department play in the revolution within Microsoft?

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2 For example, you mentioned the
3 "Intranet." What role do they play, your own internal
4 finance people?

5 MR. WILLIAM GATES: Well, we have
6 great support from our finance group in making
7 information easily available.

8 They've created what is called a
9 finance home page. And so on my PC desktop I just
10 click one place and I see a page that is very
11 descriptive about what spreadsheets and what pivot
12 tables and queries I can have. I see sales data. I see
13 expense data.

14 And right on that page is a place I
15 can click and send mail saying I wish there were more
16 detail on this or why don't we make it easier to do
17 that or why does it take so long for this to be up-
18 to-date.

19 So they did great at helping to make
20 us a showcase.

21 And we told them early on we didn't
22 want any printouts. We were tired of paper, printouts
23 of sales data, because you can't dive into the detail
24 and look at it different ways.

25 And so we wanted them to take

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spreadsheets, particularly the pivot table spreadsheet -- feature of spreadsheets and want to see that information, while at the same time they kept our transaction system running and making sure that there are no problems there and kept all of the information reliable and, you know, the basics are done.

They really were quite innovative in letting employees around the company see the part of the cost structure or the sales structure that might help them do their job better.

And so I'm really pleased the way - - I actually took one of our contacts in our finance group and made him -- put him in charge of all of our information technology because they had just a very business-oriented way of looking at it.

You know, it started with what did the internal groups want as opposed to what the technology was.

In our case we -- it's clear what technology we're going to be in. They are going to use Microsoft technology. They don't have to think about that.

And so they get all the benefit of being pioneers.

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2 For example, when we rolled out our
3 new exchange mail system, they were the guinea pigs.
4 And that was a lot of fun. But also they got to shake
5 out a few of the challenges so that we could go out to
6 customers and say, look, this is the way we run our
7 company.

8 So they like the idea of being a
9 showcase and always have a new project where they're
10 pushing the state-of-the-art and then communicating
11 all of the things that have worked very well for the
12 world at large.

13 Our accountants are very computer
14 involved. That hasn't been a problem. I think we made
15 their jobs a lot more interesting because of that.

16 CHAIRMAN COHEN: Well, thank you
17 very much, Mr. Gates, for that outstanding and
18 forward-looking presentation.

19 (Applause.)

20 CHAIRMAN COHEN: Certainly your
21 comments this morning parallel many efforts that the
22 AICPA has underway to reposition our profession in
23 this technology-based world.

24 And we appreciate Microsoft's
25 efforts to work with us to help position CPAs as a

2 strategic business advisor for millions of small
3 businesses.

4 And speaking on behalf of our Board
5 and Council, it certainly has been a pleasure to have
6 you with us.

7 One brief announcement before we
8 break for lunch. All members of the media who are
9 present here are invited to join our incoming
10 chairman, Bob Mednick, our President, Barry Melancon,
11 to ask any questions that they might have about Mr.
12 Gates' speech or what we are doing in terms of the
13 AICPA's commitment to technology.

14 That media meeting will be in the
15 State Room of the hotel at level 2; State Room on
16 level 2 for the media presentation.

17 We will now break for lunch. Lunch
18 is going to be served in the International Ballroom
19 which is on level 2, not B-2, but two floors up.

20 And since we have such a tight
21 agenda today, please reconvene in this room at one
22 o'clock sharp. Thank you very much.

23 (Which were all the proceedings at
24 the Second Session of the Fall Meeting of Council,
25 which concluded at 12:10 o'clock p.m.)

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THIRD SESSION

Friday, October 18, 1996
1:15 p. m.

CHAIRMAN COHEN: We are going to get started now.

I think we created a lot of excitement this morning and we don't want to lose that momentum.

I'm going to ask Bob Elliott to come back to the mike and we will conclude the Report of the Assurance Services Committee.

Bob.

MR. ROBERT ELLIOTT: Okay. We're back again.

Now, I left that same slide up on the screens just to refresh your memory as to where we dropped off before Bill Gates came on.

We are talking about a set of services that provide revenue opportunities that can double or triple the profession's current revenue from assurance services.

So what I want to do in the next hour is to talk about what it is that we need to do in

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order to capitalize on these opportunities.

So let's talk a bit about that.

What are the actions needed both by the AICPA and the firms and the individuals?

The first thing that we've got to do is we've got to develop new services.

Now, the Committee has brought six to the table. But those are only examples of the services that could be done. We need to continue developing viable new services.

Some of these services are going to require measurement criteria. You heard about some of those this morning: measurement criteria in health care, measurement criteria in electronic commerce, and so forth.

And so in order for us as CPAs to dominate these service opportunities, the strategy that the Committee is working on is that if the CPA profession can own the scorecard, then we can sell the scores.

So ownership of the scorecard through creation of the measurement criteria by the CPA profession is an important part of the strategy that we have here.

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And we also need performance standards so that we have high quality work as a profession and that we can maintain our image for competence and credibility with the public.

Now, in terms of developing new service, as I said, the Committee has developed six up to the business point of view. Our Committee has recommended to the senior leadership of the AICPA that new service development be an ongoing responsibility of the AICPA.

And the senior leadership has accepted that recommendation and Bob Mednick is in the process of appointing a new Assurance Services Committee.

Their job will be to do the type of things that you see in this block here. The Committee will manage the development of new services as a Board of Directors, the identification of additional new services, development of them, management of the setting of performance standards and measurement criteria, marketing these new services and deployment.

In other words, this is a very much business-oriented operation to bring these services to market.

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Now, to tell you just how important the senior leadership of the Institute considers this, the Chairman of this new committee is going to be Ron Cohen. And so he is going to step from the Chairman of the Institute - his term is up tomorrow - and his term as the chairman of this new committee begins tomorrow.

And the committee is currently in formation as Bob Mednick is making the appointments.

This will tell you how strongly the senior leadership is supporting this direction.

Now, I said they will manage the development of these services. Underneath this senior committee will be a set of task forces devoted to individual opportunities, such as the health care opportunity or the ElderCare opportunity.

And these task forces will be made up of members who intend to make money in these businesses.

So these will be the people who are going to participate in design because they want to bring it to market and they want it to market fast.

In addition, of course, this new committee is going to interface with the standards setters because they themselves will be the standards

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setters of performance standards or measurement criteria but there are other components of the Institute that have those responsibilities, and so there will be this liaison requirement here.

So this is a deliverable that's already in place.

In addition to develop new services, we are going to have to improve our competencies. You heard about some competency gaps as we talked about these things earlier. We have a lot of the required competencies, but not all of them.

And so we need to go further in terms of CPE and training.

In terms of curriculum in institutions of higher education, if you think about the way they're training the new people coming into our profession, to a large extent they are training them for the profession that used to be.

Sixty to seventy percent of the curriculum is still loaded on the subject of preparing and auditing historical cost-based financial statements.

The curriculum needs reengineering to prepare these students. And the AICPA is involved

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already in curriculum redesign with these institutions.

We also need to do better in terms of hiring, bringing in new competencies and retaining them in the profession.

So these are competency-based issues.

We also need to change a CPA's mindset, to move from a preparation focus to a use focus, to take more of a customer-oriented point of view and become much more market-oriented than we have been in the past, to be able to see opportunities in the marketplace and turn them into profitable new services.

And we need to develop tools to support our efforts: service development tools for firms, practice aids and software that are going to help do these types of things.

We need to develop a market-based technology infrastructure at the AICPA in order to facilitate new service development, build CPA competency, match clients with CPAs through the use of the technology, and, importantly, to provide feedback on service so that that feedback can be built into

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2 service design and service delivery and enable us to
3 have continuous improvement of our new services.

4 And you heard Bill Gates talk
5 earlier about how Microsoft is using the Internet to
6 get feedback from its customers so that it can
7 continuously redesign its products and services.

8 Now, that's what's required.

9 So the question is: What is the
10 AICPA going to do?

11 So let me focus on that for a few
12 minutes.

13 Let's talk about the AICPA of the
14 future and what it is likely to look at.

15 The AICPA of the future is more
16 responsive to the needs of its members. You already
17 see that direction. But I'm saying here it's also more
18 responsive to the needs of its members' clients, going
19 right through the value chain to create that type of
20 value. That's what the Institute of the future is
21 going to look like.

22 It is going to continuously develop
23 and improve viable new services through this new top-
24 level committee that is put in place under Ron Cohen's
25 chairmanship.

2 It's going to assist the members in
3 branding new services as CPA services so that the
4 members of the public when they think of these
5 services, they think first and foremost of CPAs to
6 deliver them.

7 And this will help us to carve out
8 these competitive spaces so that we can, in effect,
9 meet the competition with the things that they can't
10 provide: the independence, the objectivity, the
11 credibility that we spent a century in building up.

12 And the AICPA in the future is going
13 to do even better at building its members'
14 competencies to do these types of things.

15 It is going to provide advanced
16 education. It's going to provide more and more
17 valuable practice aids. Depending on how we come out
18 tomorrow, it's our hope on the Committee that it's
19 going to be a position to accredit CPAs and position
20 them as preferred providers.

21 As we try to go into these new
22 competitive spaces where we don't own the franchise
23 through the State CPA statutes, it is going to become
24 increasingly important that we have credentials in
25 position there.

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You saw George Lewis this morning report to you that something like ninety-six percent of the members of the public that we surveyed on ElderCare thought that it would be important to have an accreditation. And that is an important component of positioning CPAs as preferred providers.

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And the AICPA of the future will get constant feedback from the marketplace in order to continuously redesign products and services and the way in which they are delivered.

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And the AICPA of the future is going to maintain the technology infrastructure to facilitate new services, the development, the deployment and the marketing of these new services.

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And the AICPA is going to be integral to its members' practices, not just a service provider, but an integral link on the value creation chain for its members.

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Now, this morning I asked one of the questions, how many of the people in the audience thought the AICPA was already vital, and we got a pretty good reading. It was up in the four range out of -- one out of five. But our goal is that we get that up to a straight five, that the Institute is

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absolutely vital to its members' creation of value.

Now, what I'm going to do next is I want to give you a snapshot of how the AICPA might do that.

And I'm going to demonstrate a web site here. This is a visualization of how we are going to use the Internet in order to create value for our members.

Now, it's not as of today. What we are going to do is project ourselves forward a year or two to think how it might look if we did that. So this is not currently an existing product of the AICPA, but it is using today's technology.

And the web site that I'm about to show you is up on the Internet now. That's how we developed it.

You can't find it because it's password protected, but it's up on the Internet now and I'm going to show it to you.

It uses today's technology to demonstrate the use of electronic commerce to create opportunities for CPAs.

Now, the vehicle I'm going to use is a story about a consumer and a CPA.

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And the way I'm going to do that is I'm going to tell you this little story. But before I do that, I want to just give you a very, very short tutorial on the use of the Internet.

Fifty-two percent of you said that you had personally obtained information over the Internet in the last month. Forty-eight percent of you by rapid calculation didn't.

(Laughter.)

MR. ROBERT ELLIOTT: So I want to just tell you a couple of things here.

What you see on the screen is a web browser. Now there are a number of web browsers out there. There is Internet Explorer, there's Netscape Navigator. It makes no difference. That's only the shell. It's the way of getting to this stuff.

And what you see towards the top of the screen are the buttons used to navigate, to go back and forward and load images and zero in on things and so forth.

That's sort of the standardized content.

But the interesting stuff is in the white space. This is the material that's brought to

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you from wherever it exists in the world so that you can access to it.

Now, what makes the Internet so powerful, of course, is the ability to use hypertext to link documents to each other. And these links are indicated. They can be either of two types. They can be words, and you see some words in here. You see links. And how you can tell it's a link is because it's in a different color and it's underlined. Wherever you see that, if you click on that, it will take you somewhere else on the Internet.

Now, this particular other image is in our own web site. It's nearby.

And here you see a different type of link. You see these two blobs here and you see that the cursor is turned to a little pointer or hands. That tells you that's actually a graphic link.

So you can click on that and you can go somewhere else.

And what we have set it up for just arbitrarily here to show you how this works, is where I have told it to go is actually to the Spanish Institute's home page. So you can see with a simple click of the mouse we've gone half way around the

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world.

It makes no difference where in the world the information is. These linkages can take you directly to it.

That's the end of the tutorial for the forty-eight percent who haven't been there.

(Laughter.)

MR. ROBERT ELLIOTT: Now, what I want to do is is I want to go into the story. So here's the story.

Jack O'Reilly is an architect. He's fifty-five years old and lives in Boston.

His mother, Kathleen, is eighty-five years old and she lives in Gainesville, Florida.

And Kathleen has been in pretty good shape up to recently, able to live in her own home and manage her own affairs. But Jack just went down to Gainesville to visit her and he noticed a few things.

He noticed that there is a stack of bills there that hasn't been paid. He notices that there is a prospectus for a high tech investment line there and Kathleen, his mother, says she's thinking of writing a check to a broker for \$15,000 next week.

And he notices that Kathleen's

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medications don't look like they have been religiously taken everyday.

And Kathleen also mentions that the health care provider that comes into her home two days a week to give her therapy has been kind of erratic. That's Consolidated Home Care.

So Jack is getting these indications that Kathleen's ability to manage her affairs is perhaps declining a bit.

So he straightens these matters out the best that he can while he is in Gainesville, but it's kind of worrying him.

He's on the plane headed back to Boston and he is worrying about this. And he thumbing through BusinessWeek and he sees an advertisement in there that the AICPA on its web site has something called ElderCare Plus, ElderCare assurance available to let these people know that the needs of their loved ones are being taken care of.

So this suits him fine. He goes back to his office in Boston and he loads on and he goes to the AICPA web site for ElderCare and he gets to this page here.

Now, you see our blinking eye here.

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This carries over our pin art from our advertising campaign for visual consistency.

And what we have here is the sort of frontend to where Jack can get some information about ElderCare.

So this blinking eye is actually one of those graphic links and he clicks on this graphic link.

And when he does, he goes to sort of a table of contents page where he sees the type of services that the AICPA has made available to him as a consumer.

For example, number one, he can access the resources. He can find out who the service providers are and how they are rated and so forth.

Number two is he can get a lot more information about what this ElderCare Plus service is and how CPAs provide it.

Number three, he can find out about the AICPA and who these CPA folks are.

Number four, magic moments is a place where the consumers can actually trade pictures and stories and whatnot and create a community of interest.

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And number five is where people can actually put a bulletin board, get linked up with each other, find out information and so forth.

And number six is a point for feedback, where consumers can put in the quality that they perceive the various providers are giving.

So you see the use of feedback links here, you see the creation of a community of interest throughout these subjects, you see the availability of lots of resources.

So Jack thinks this is very interesting. The particular problem that he is worried about is that Consolidated Home Care is really not doing a very good job for his mother Kathleen.

So he wants to check up on that. And he hits the link for resources.

And that takes him down a level.

What he looks at here is he looks and sees that there are a number of resources available. For example, he can look into medical issues or transportation in getting outside of the house or legal issues or in home health or financial help.

And he notices that this range of

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2 services actually covers all of the issues that he had
3 with his mother.

4 And he looked at the links below
5 those - and you probably can't read them because of
6 the small type - but basically what it is saying is
7 there are readings that they can go to in any of these
8 areas - there are ratings of caregivers, there are
9 related links on the Internet - so that they can mouse
10 around and find additional information.

11 Well, Jack's particular problem here
12 is that he's concerned about this in-home health care.

13 So he's on to the in-home health
14 link and he goes to caregivers and ratings and drills
15 down another level.

16 And when he does that, what he finds
17 is here is a whole set of resources that he can look
18 at - domestic, maintenance, transportation, home
19 health care. But what he needs to first do is zero in
20 on a part of the country. So he has this map here. And
21 since his mother is in Gainesville, Florida, he clicks
22 on Florida and zeros in then on the State of Florida.

23 Now, he clicks on Gainesville. And
24 now he's zeroed in on Gainesville.

25 The software is going to begin to

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provide the help that's very localized to the mother's needs.

So, as we said, the issue is home health care.

He goes over to the home health care link and clicks on that because there are a number of providers that are rated in the Gainesville area.

And here they are. They come up. You see these providers are rated. There is a database here. And they are rated anywhere from zero equals poor up to ten equals excellent.

And he looks down there and he finds mother's provider, Consolidate Home Care.

And look what happens! He looks at the overall rating 4, between average and good.

This is confirming the idea that mother is not getting very good service out of this provider.

So he's got data. Jack has received data from the database that is in this web site.

Well, this is very interesting but he doesn't know what to do next. I think that maybe he needs some help.

So, you see the ElderCare Plus

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2 linkage up there? He clicks on that link to see what
3 he can find in terms of help.

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5 And here's the ElderCare Plus site
6 where, in effect, the CPAs are going to be providing
7 this ElderCare assurance.

7

8 And he notices that the assurance
9 services fall into a number of categories. There's
10 help in selecting providers. Then he can move over,
11 once they're selected, and supervising their provision
12 of services, or on the right one there is a monitoring
13 assurance service.

13

14 He scrolls down a bit and he notices
15 that there is a CPA locator feature here.

15

16 So he thinks maybe he ought to find
17 one of these CPAs who provides this service.

17

18 And he clicks on the CPA locator
19 button.

19

20 And what comes up is this screen
21 which tells him that ElderCare Plus is provided by
22 CPAs, there are eighteen accredited providers in
23 Gainesville. And it gives him a choice of how he can
24 access these. He can see them alphabetically or by
25 size of firm or number of CPAs or by number of
26 accredited ElderCare providers.

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So he decides he likes to see them in that order. He clicks that sort of order, the fourth one, and says let's view the list. So he clicks that.

And up comes the eighteen service providers in Gainesville.

And they're sorted by the number of accredited providers. And look who comes up first.

(Laughter.)

MR. ROBERT ELLIOTT: Davis, Monk & Co, and there is Harold Monk's picture.

And it tells you a little bit about the company, twenty-two CPAs, six accredited ElderCare Plus providers.

So he looks over this list of firms, scrolls through it, and he says, well I don't know anyone else, I might as well see about Davis, Monk & Co., get a little more information in there.

So he clicks on that link. And he goes to Davis, Monk's home page for ElderCare assurance.

Here he learns more about the firm. He sees some graphic information and so forth. And he notices there towards the bottom of the screen that

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there are client testimonials. This again is part of the feedback system.

Well, he doesn't know anything about Davis, Monk & Co. So he decides to see what Davis, Monk's clients think of it.

So he clicks on the client testimonial link.

And that takes him over here to some reproductions of actual letters that Davis, Monk has received about the quality of the ElderCare assurance that they are providing.

So Jack reads these things and he thinks this looks pretty good. I think I can get something here that I need. Maybe I'll contact Davis, Monk & Co.

So there is a link that he can click on and that takes him over to an E-mail form.

So here we are with E-mail and he types in Gainesville, my mother Kathleen is there and she needs service and my telephone number is whatever it is.

So he puts this sort of information here in the E-mail slot. And when he finishes the E-mail, he sends it off to Davis, Monk by hitting the

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send-out button.

Now, this has gone off and he has sent E-mail to Harold Monk in Gainesville, Florida to see about getting connected up on the service.

Okay.

Now the story goes on, that Harold immediately calls him back. They get in contact. The next time Jack goes to Gainesville, he meets with Harold. He hears about the services. He likes Harold, thinks he can get along with him. They sign an engagement letter and Harold begins to go to work.

And what happens is that a month or so later Jack is back in his office in Boston, he loads onto the system, and sure enough there is E-mail for them.

There is E-mail there. So he hits the read now button.

And up comes the E-mail.

And what it is it's the October report and update from Harold Monk to Jack O'Reilly about what Harold's firm has done to help assure the completeness and quality of Kathleen's portfolio of services and a list of procedures that have been performed and the assurance that's given.

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2 So Jack is now receiving assurance
3 that he needs through the electronic medium on a
4 periodic basis provided by Harold.

5 Okay.

6 So that's very interesting. Right?
7 We've solved Jack's problem.

8 But how did Harold get to this
9 database so that Jack could find him?

10 In order to answer that question,
11 what we want to do is roll the clock back about a
12 year. So this is a flashback.

13 Now we're sitting in Harold's office
14 in Gainesville and Harold is sitting there and he is
15 saying, you know, I don't see any growth in my
16 accounting and auditing practice. More and more my tax
17 clients are buying tax software. More and more of my
18 accounting clients are buying accounting software. I
19 need to do something to grow my practice.

20 Now, he's heard about somewhere that
21 the AICPA has a whole set of new services.

22 And so what he does is he decides to
23 go into the AICPA's home page.

24 So he logs on. He goes to the
25 AICPA's home page.

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2 Now, those of you who are net
3 browsers regularly will recognize this. This is the
4 AICPA's home page. And, incidentally, in a room right
5 around the corner here is a bunch of computers set up.
6 If you are so inclined, you can go in there and you
7 can mouse around the AICPA's home page.

8 Well, anyway, Harold looks at this
9 and he notices that at the top of the home page there
10 is a link there called new services.

11 So he decides to click that and see
12 what's available for him.

13 He clicks on to new services and up
14 comes this table of contents. And lo and behold, this
15 is the six new services that the Special Committee on
16 Assurance Services reported to you this morning.

17 Information systems quality, risk
18 assessments, electronic commerce, health care,
19 business performance measures and ElderCare.

20 So Harold looks at the brief
21 description of each of these services and he decides
22 that maybe ElderCare Plus is the one that he might be
23 interested in.

24 So he wants to know more about that.
25 He clicks on the eye, the watchful eye, the monitor,

1
2 and he comes down to this table of contents for what's
3 available to him to learn more about ElderCare Plus.

4 There is a section there for first-
5 time visitors. There is a place he can find resources,
6 someplace he can see about getting started in this new
7 business, a bulletin board function where CPAs form a
8 community of interest. These are the people who are
9 providing ElderCare assurance or who would like to
10 where they can trade stories.

11 Then there is a section for news and
12 industry trends, a section for market potential. There
13 is a linkage over to the consumer web site, the one
14 that Jack O'Reilly went to so he can see what's
15 available there. And there is a section for feedback,
16 again incorporating the power of the technology to
17 continuously bring feedback so that the Institute can
18 better design the services and so that the
19 practitioners can better deliver them.

20 Well, Harold has never been here
21 before. He decides to go over to the first-time
22 visitors section and he hits that link.

23 Up there you can see the number of
24 old folks growing year by year.

25 (Laughter.)

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2 MR. ROBERT ELLIOTT: That's all
3 audited, by the way, and we found it correct.

4 (Laughter.)

5 MR. ROBERT ELLIOTT: Okay.

6 So there are a number of places that
7 he can look at here. He looks at market potential. He
8 finds the number of people over sixty-five, over
9 seventy-five, how it's growing, how much wealth they
10 have and so forth, and the revenue potential for the
11 profession as a whole.

12 There is a section on how he can
13 find clients. There is a section on the small
14 practitioner and what an attractive market this is for
15 small practitioners because of their position and
16 trust in the community, because many of the recipients
17 of these services are in small communities and because
18 the younger generation who feels responsible for them
19 are remote, they're somewhere else.

20 And there's a section on competition
21 that says there is no real organized competition.

22 But, anyway, Harold is intrigued by
23 the market potential. So he decides to drill down on
24 that link.

25 So he hits market potential and it

1
2 takes him to a little form here where he can just put
3 some information about Davis, Monk & Co. He can put
4 the name of the firm, where they're located in
5 Gainesville, and some demographic information about
6 the firm, how many CPAs, how many clients, what types
7 of clients so that we can get some demographic
8 information about the firm and do some diagnostic
9 routines and find out is this a good opportunity for
10 Harold or not.

11 So he inputs all of this information
12 and he hits the calculate results link.

13 Now, it comes up. There is an
14 analysis that the software has done for him. Now, this
15 is a two-dimensional array here.

16 On the vertical dimension what has
17 been done is we have analyzed how good a marketplace
18 Gainesville might be for this ElderCare Plus service.

19 And Gainesville, of course, has a
20 lot of older and retired folks and they have lots of
21 money. So it turns out that Gainesville is a very
22 attractive community in which to try to offer this
23 service.

24 Now, in the horizontal dimension, we
25 looked at the demographics of Harold's firm and we

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2 found out that that's a firm that is well suited to
3 provide this service.

4

5 And at the intersection of the
6 market attractiveness and the competencies of the
7 firm, we see way up in the upper right there, that's
8 where Davis, Monk & Co. would be relative to this
9 ElderCare service, way up in the green area, meaning
10 that this would be a very attractive opportunity.

11

12 Obviously, if he came out in the
13 middle area or down in the lower level, in the red
14 area, he should keep going and look at some of those
15 other service opportunities.

16

17 But this one looks good and so he
18 says I'd better getting started.

19

20 He hits the getting started link and
21 he finds out what it's going to take to become one of
22 these ElderCare providers. And he sees that there is a
23 set of accreditation requirements that follows
24 Council's model, the experience requirement before
25 examination, that a continuing experience requirement
and CPE.

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27 So there is a set of requirements on
28 the right.

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30 There is a set of links that relate

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to practice development and how you go about doing that.

Well, his initial concern is what's it's going to take to get accredited. And the main stumbling block might be the examination.

So he goes to the qualifying examination link and he clicks on that to find out what's in the exam.

So here he finds out the exam is given once a year in these cities and here's what's covered by the exam: elderly needs, caregiver services, service quality criteria, assurance methods, reporting, ethical considerations, legal considerations. These are the things that would be required in order to provide the service.

Harold says I know about all of that stuff pretty well except maybe the legal considerations. I'm a little iffy on that. Let me drill down on that.

So he hits legal considerations. And what he finds is a list of the CPE courses provided by the Institute on legal considerations, things like trusts and living wills, Medicare planning and so forth.

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2 But one of them is conservatorships
3 and powers of attorney. And Harold says I don't know
4 anything about that. Maybe I'd better find out more
5 about it.

6 So there is a link there that he can
7 drill down and find out more about that course.

8 So he hits that link and here is a
9 description of the course, the syllabus, the price,
10 the availability. He finds out when and where it is
11 being given. It turns out that it's being given in
12 Miami which is right down the road from Gainesville on
13 June the 1st. He's available that date. He decides
14 that he'll sign up for the course.

15 So he hits that link to enroll in
16 the course. And here is a place where he can enroll.
17 He puts in his AICPA member number, puts in his name,
18 puts in that he is going to require hotel
19 accommodations.

20 And he sends the form.

21 So what happens now is this has gone
22 off. He's actually entered into a transaction on line.
23 He's registered for a CPE course.

24 So while he's waiting to take the
25 course, he says let's go back and check a little

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further and see what's available here.

So he sees the getting started link there. And he says let's go back there.

He goes back and sees, in addition to the accreditation requirements and the practice development, he sees at the bottom of the screen there that there is a practice aid available from Practitioners Publishing Company to assist in getting started.

So he says, well, I've used PPC materials a lot in the past. They're pretty good. Let me take a look at that.

So he hits that link and drills down. And those of you who are regular net browsers will recognize that this is the PPC home page.

And it shows all of the availability of the practice aids that they have.

In fact, if you look at the third icon from the left, what do you see? ElderCare Plus practice aid.

How about that?

So Harold decides to see what that's about. He drills down on that, hits that link.

And here is PPC's announcement of a

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new practice aid for ElderCare Plus. It's got general guides of the CPA's role, defining the service, skills needed and so forth. And on the right it has "set of specific aids" procedure programs, questionnaires, engagement letters, agreed-upon procedure aids and much more.

So Harold says this is exactly what I need to get started and he sees the 800 number there from PPC. So he goes ahead and orders the practice aids to get started.

Now, as I said, we are in the future a year or so here. But this is not hypothetical. PPC has this practice aid nearly ready to go now. Okay?

Well, that's the story.

And let me recap a few things about what I'm telling you in this story.

We come back now to Harold a year later having completed his accreditation and getting his name in the database, loads on one day and he gets his E-mail. And he clicks on the read now button and sure enough in his mailbox is a letter from Jack O'Reilly in Boston. This was the connection that was made earlier before the flashback.

So we've shown two different web

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sites here; one, consumer-oriented, to show how we can create value for the customers or clients of CPAs, the other to show how we can create value for the CPA, him or herself.

Okay.

Let's recap then.

What did we see in this demonstration? What are the points that are illustrated?

Well, we saw that Jack O'Reilly had a problem. We saw that Harold Monk had a problem.

We saw how they used the technology, the ElderCare Plus web site, in order to solve their problems.

In particular, Jack's problem is that his mother is in increasing need, but she's twelve hundred miles away. And he solved that problem through the ElderCare Plus web site.

What he did was he reviewed the available caregivers in Gainesville. He noted that his mother's provider, Consolidated Home Care, was rated low.

But he learned about our ElderCare Plus service. He discovered lots of other resources

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2 and contacts that would help him to understand how he
3 could better meet the needs of Kathleen.

4 He located a CPA, located Harold,
5 through this source and he began to receive assurance
6 by electronic mail.

7 So that's how this technology-based
8 electronic commerce vehicle that the Institute can put
9 in place helps solve the consumer's problem.

10 Now, Harold had a different problem.
11 Harold needed to kickstart the growth in his firm. And
12 he solves his problem through going to this AICPA web
13 site.

14 In particular, he found that
15 Gainesville was an attractive place to do this and he
16 found that Davis, Monk & Co. was well positioned.

17 He got training and practice aids.
18 He discovered lots of other resources that would help
19 him in this business. He got linked to the ElderCare
20 community, other practitioners in this line of work so
21 they could trade war stories and help each other do a
22 better job.

23 He got accredited to do the service
24 and he began to receive new clients over the net.

25 So the value that we are creating

2 here goes along a number of dimensions. The dual web
3 sites address the needs of both consumers of our
4 services and the CPAs' needs, and actually creates an
5 electronic marketplace in which these consumers and
6 CPAs can do business.

7 The feedback loops are built in here
8 so that customers can evaluate service design and
9 delivery and our members can evaluate the service
10 design and the tolls.

11 And by getting this feedback into
12 the system, we can have continuous improvement of both
13 design and delivery, something that is absolutely
14 essential in today's marketplace.

15 As a by-product of all of these
16 people interacting on the network collecting lots of
17 data, evaluations, names, addresses and whatnot, and,
18 in effect, we can use that information to create a new
19 source of value, the databases that we create over the
20 net. So that becomes another source of value.

21 And what happens is the AICPA winds
22 up creating value for both members and their clients.

23 So there is the watchful eye of the
24 ElderCare Plus web site that could support the type of
25 service that we are talking about.

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Let me turn at this point to what it is that the Committee is turning over to the membership as it completes its work.

I want to focus on the deliverables. You've got some hint of it so far, but I want to kind of summarize it for you.

The first deliverable is in the area of changed management. In order for us to begin taking advantages of these new opportunities, we have to get the members of our profession interested in doing it, prepared to do it.

And what we've done as a Committee is we have made a huge number of presentations across the United States.

You saw in the third of the little mailers that we sent you before the Council meeting that we have already given a hundred and thirty presentations in most states of the country. By the time we're finished that will be over two hundred.

We'll have over twenty-five articles in at least twelve journals and at least eight videotapes, six of which are already out there. But we will have additional videotapes.

So these are part of the Committee's

1
2 strategy to get the word out, get the membership
3 prepared to take advantage of these new opportunities.

4 So we've done a great deal of
5 changed management already.

6 We have focused on these audiences,
7 not just members, but also customers.

8 We've focused on practice firms
9 divided into small, medium and large.

10 We've focused on industry,
11 government, academia, regulators, the press and the
12 AICPA and the State Societies as important channels to
13 get it out here. So we've targeted each of these
14 markets as separate communications targets.

15 In addition, I reported to you on
16 six new services that we think have tremendous revenue
17 potential that have already been built up to the
18 business model stage.

19 But it's not enough to just have six
20 new services. You probably heard me say this before.
21 You can cure a person's hunger for a day by giving him
22 or her a fish. But you can cure his or her hunger for
23 a lifetime by teaching them how to fish.

24 And so the next thing that we have
25 developed is service development models, one to be run

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at the Institutional level, at the AICPA level. And that's the new Ron Cohen Committee that will be carried forward for additional development.

So we have given that a template about how to find and develop these services.

In addition, we have a template that's available at the firm level to help individual firms become more market savvy, to be able to identify market opportunities in their marketplaces and turn them into profitable new services. So we have that template ready to go.

In addition, we formed an alliance with PPC some months ago and PPC has been attending our meetings and working with us and developing these practice aids as we have been progressing on the development of these services such that three of these practice aids are virtually ready to go now and PPC is working on additional ones.

So a set of deliverables here is actually these practice aids ready to go.

CPE courses. The AICPA already has four CPE courses that they are working on which will begin to roll out in only two weeks. And they will be developing additional courses. Some of them are

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2 targeted to individual services as ElderCare, others
3 are targeted to firms to help them understand and
4 become more -- how to become more market-oriented.

5 So CPE courses are in the pipeline
6 now and will be rolling out beginning in only two
7 weeks.

8 We've delivered this prototype
9 ElderCare web site. What it is is an example, it's a
10 conceptual design for how the Institute can use the
11 Internet technology in order to create value for
12 members and their clients.

13 We have developed or are in the
14 process of developing six Committee web sites as the
15 primary delivery vehicle for the materials that we are
16 putting out in the profession. I'll come back to that
17 in a minute.

18 Also targeted brochures to the
19 various communities of interest.

20 In view of the fact that a key
21 concern that members have as they move into these new
22 areas is the litigation risk, we have developed three
23 litigation risk management templates.

24 One, that operates on the
25 professional level when the AICPA decides whether to

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design a new service or not, it's not going to do it unless the litigation risks are controllable, and we've given them a template on how to decide that.

The second template is at the firm level when firms decide whether they should get into a new line of work. So your firm-level risk management template.

And the third is an engagement level template so that when a client comes to you with a specific opportunity, you can run through this template and decide whether the risks are manageable.

We hoped we could find a silver bullet on litigation but we didn't. What we did find is a lot of ways to help reduce the risk from the service design to the contracting and engagement letter end of it, to the performance of engagements and even to the use of alternative dispute resolution if something does go wrong.

And we provided a set of templates and contractual language that's available to practitioners in order not to eliminate -- we can't do that -- but to contain the litigation risk of going into these new areas.

We are working on a set of press

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2 releases to the press. We've already been working with
3 Hill & Knowlton, the Institute's public relations
4 counsel, and Hill Holliday, the Institute's
5 advertising counsel, on getting these new services out
6 there and positioned.

7 We have developed a conceptual
8 framework to turn it over to the profession as it
9 develops these new services, at the firms as they
10 think about them.

11 And we have developed a set of about
12 thirty recommendations to the AICPA that have to do
13 with structure issues, standards setting issues,
14 technology issues and so forth.

15 The main one I've already reported
16 to you, which has been accepted, and that's the
17 formation of the new service development committee.

18 Now, in terms of reporting, here is
19 a big fat book representing our report going out to
20 all of these audiences: small practice firms, medium
21 practice firms, large practice firms, academics,
22 customers, industry and government. Right?

23 Wrong.

24 Sending out a printed report of a
25 one-size-fits-all variety does not exemplify the

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2 messages that we're telling you about.

3 We are telling you about the use of
4 information technology. We are telling you about
5 meeting the needs of individual customers.

6 So we are not going to do that.
7 What we are going to do instead is take these six key
8 audiences, provide them with six different web sites,
9 each oriented to the point of view of those members
10 and deliver the message electronically over the web.

11 Each of these web sites will see
12 this perspective of assurance services from whatever
13 your member perspective is. If you are a member in
14 industry, you have this set of concerns. If you're a
15 member in academia, you are concerned about curriculum
16 and research. If you are a member of a small firm, you
17 try to figure out how to get started in these
18 services, et cetera.

19 So we have these web sites available
20 to display this information and the hyperlinks in
21 there will drill you down to any level of detail you
22 want to get to in terms of the committee's entire
23 output.

24 For the forty-eight percent that
25 answered no earlier --

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(Laughter.)

MR. ROBERT ELLIOTT: -- for each of these audiences, we are publishing a targeted brochure, the main objective of which will get you -- will be to try to get you interested in getting on the net, to really get the information in the form in which we intended.

But we will publish six targeted brochures into these areas of interest.

So, to summarize, what we have is - - I talked about the changing environment, the threats to CPAs, the opportunities for CPAs, huge opportunities that we have, the actions that are needed to capitalize on these opportunities and how the AICPA is going to help its members in doing these things.

That's what I have reported to you.

Now, in order to get all of this done, I'm just the reporter here, I want to focus on the Committee here. And these are the Committee Members. These were the people who caused this all to happen.

Let me just go through them.

Jay Brodish is the partner in charge

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of the audit practice for Price Waterhouse. And he led our Line Extensions Subcommittee.

Bob Bunting is the Chief Executive of Moss Adams on the west coast, and he led our New Lines Subcommittee.

Brian Crowley is the Assistant Controller General of the United States and he was our liaison with the governmental sector.

Myself, of course.

Jim Hooton is the worldwide leader of Arthur Andersen's audit practice. And he led our Customer Needs Outreach.

Gordon Johns is the professional practice partner at Deloitte & Touche and he led our External Factors Study.

Bill Kinney is a professor at the University of Texas and he was our main liaison to the academic community.

Rich Lea is a professor at California State University. He led our Future and Current Service Effort and he is currently developing our portfolio of web sites.

George Lewis is, of course, a named partner in Broussard, Poche, Lewis & Breaux. You heard

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2 from him earlier. And he's our champion on the
3 ElderCare Service and also led our Competency
4 Subcommittee.

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6 Pat McDonnell is the Vice Chairman
of Audit and Assurance for Coopers & Lybrand.

7

8 Harold Monk is the managing partner
of Davis, Monk in Gainesville, Florida. You heard from
9 Harold earlier.

10

11 Don Neebes is an audit partner at
Ernst & Young and he led our Litigation Subcommittee.

12

13 Chet Sadowski is Vice President and
Chief Accounting Officer at U. S. Home and he is our
14 principal liaison to industry.

15

16 Sandy Suran is the President of the
Suran Group on the west coast. And she was our leader
17 for communications and changed management.

18

19 Every member of this Committee made
a huge contribution to what I'm presenting to you
20 today but I just want to focus for a minute on Don
21 Pallais, our Executive Director.

22

23 Don took this job on as a full-time
assignment two years ago. He's done an absolutely
24 fabulous job and the depth and variety of results that
25 I'm bringing to you today is in no small measure as a

2 result of Don's outstanding work on this Committee.

3 And I just want to recognize that
4 work and let everybody know here that we would not
5 have anything without him.

6 (Applause.)

7 MR. ROBERT ELLIOTT: At this point,
8 I'm going to throw it open to see if there are any
9 questions that we can answer for you.

10 I know we've given you a tremendous
11 amount of information. But let's see if there is
12 anything here that we can do in a couple of minutes to
13 answer the questions that you have.

14 MR. DON PALLAIS: We have a dozen
15 questions here to play "Stump the Elliott Committee."

16 The first question has to do with
17 independence. And it says: new services call for
18 independent assurance. Do you anticipate some sort of
19 regulation regarding independence, for example, with
20 the services you are limited to clients where we don't
21 receive any fees?

22 MR. ROBERT ELLIOTT: The Committee
23 has developed a paper on independence which is not
24 among the deliverables that I mentioned, but it's
25 another deliverable because we are very concerned with

2 the fact that the existing independence rules really
3 have been developed to focus on audits of financial
4 statements and they answer those questions pretty
5 well.

6 But when we get involved in new
7 assurance services, you get sort of unique new
8 questions on independence.

9 And in order not to have a huge
10 number of additional rules here, what we are trying to
11 do is develop a conceptual way to answer those
12 questions.

13 And so we've developed a very
14 conceptual definition of assurance independence which
15 is that assurance independence is when the
16 practitioner has a low risk of bias with respect to
17 the information that the assurance relates to and that
18 that principle enables you to decide whether in any
19 particular case there are any other relationships that
20 would, in effect, cloud your independence.

21 In many cases there would no problem
22 of doing assurance services for clients for other
23 services, just as today we do management consulting
24 for audit clients.

25 In other cases though, where you

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2 look at the relationship and saw that there was
3 something inherent in the relationship that gave you
4 some level of bias relative to the assurance that you
5 were giving, you would not be able to do that.

6 So we have this conceptual
7 framework. And while we would like to stick at a
8 principles-based level here, I'm sure that over time
9 practitioners will submit inquiries, is this situation
10 acceptable, and the Ethics Committee will rule on it
11 and we'll get some case basis.

12 In general, I don't think there
13 should be conflict-of-interest situations.

14 But where there are, then the two
15 services couldn't be rendered by the same
16 practitioner.

17 MR. DON PALLAIS: Okay.

18 Second question: it's specifically
19 directed at health care, but it's probably a broader
20 question than that.

21 What do you perceive as the impact
22 on collegiate education of the new assurance services?

23 MR. ROBERT ELLIOTT: The impact on
24 collegiate education?

25 As I mentioned earlier -- maybe the

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question card was written before I said that -- but something like sixty or seventy percent of the current curriculum in most schools is about the preparation and auditing of financial statements.

The Accounting Education Change

Commission has been working for the last seven years with higher education to try to bring the curriculum more in line with the environment that we are talking about here.

And the AICPA's Education Commission

itself is contributing to that effort and has put a lot into it.

What you see is a number of the

leadership schools have already substantially changed their curriculum to move it in synch with the way in which we are going here.

And the other schools now are

beginning to look at those leadership schools for what are the program elements that they can install themselves.

One of the key transmission vehicles

to do that is textbooks. And this curriculum performance has been going on long enough now with a handful of leadership schools, but these ideas are now

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being incorporated into textbooks and that makes them much more available to the rest of higher education.

But we believe that there are substantial implications for higher education and they are going to have to change the way in which they train new entrants to our profession.

Now, that's not to say that they should overlook the preparation of financial statements because that is and will be a key element of what we do.

But there is a perspective shift. And the perspective shift is they have to educate these young members of our profession to think about how information systems can be used to achieve strategic advantage.

One example of which is financial information in order to run the business. But other examples of which are risk assurance, other performance measurement assurance, system reliability assurance and so forth.

And those curriculum changes are going on.

But the AICPA will stay involved in that game and facilitate curriculum reform.

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MR. DON PALLAIS: Thanks, Bob.

Do you anticipate the fee structure on these engagements will necessarily be driven by our more common past practices or will we bill them based on value or even a commission or a contingent royalty basis?

MR. ROBERT ELLIOTT: The answer to that question is that we have to think about new fee models.

The old one of charging our hours will perhaps apply in some of the new services, but we're also going to have to think about different models.

Ev Johnson during his presentation on electronic commerce talked about, in effect, taking a per transaction or a per click fee for transactions that go on in electronic commerce.

We also find that when, as Harold Monk reported in some of these focus groups, that it's often more acceptable both to the accounting firm and the client to work on a per project basis rather than a per hour basis.

In addition, the template, the paper that we prepared to help firms to become more market-

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oriented, has a section which actually focuses on the question of fees and billing.

My own view is that it should become more value driven rather than hours-times-rate driven, not necessarily contingent fees and commissions, but a different way of thinking about creation of value.

That paper has a good discussion of that and it will be included in the CPE course that is under development now.

So those issues will be dealt with so that each practitioner can figure out what the best way to charge for these services is.

MR. DON PALLAIS: What part will the government play in the new assurance services? If we don't do these, will the government?

MR. ROBERT ELLIOTT: The answer to that question is that I think what we are talking about here is market supply of assurances or market demand for assurances.

The government generally steps in when there are sufficient externalities that it's not worth it for any individual players in the market to provide these services.

So companies, you know, private

2 companies don't find it worthwhile to build bridges,
3 harbors, railroads and schools. So the government
4 steps in to do those.

5 But what we are talking about here
6 in these new assurance services are services that
7 create value for consumers and for which they are
8 going to be willing to pay.

9 And, therefore, there is no reason
10 to expect that the government would have to step in to
11 supply them. We think there is adequate incentive in
12 the market to produce and deliver these services.

13 MR. DON PALLAIS: The proposed new
14 assurance services are exciting. Do you have any
15 written information similar to the slide presentation
16 that we, as Council Members, can take back to our
17 States to help us describe the potential new services?

18 MR. ROBERT ELLIOTT: We will
19 provide every member of Council with a printout of all
20 the slides that we have used this morning and this
21 afternoon.

22 In addition, you saw the list of
23 deliverables there in terms of the web site and
24 brochures and the complete document set that underlies
25 it. All of that will be available. And we will be

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producing additional videotapes that take the series that we had up-to-date, the first six, and extend them by target markets. And those will be available probably sometime after the 1st of the year.

MR. DON PALLAIS: The final question card we have.

How can we be sure the AICPA will stay committed to its new directions for services to be provided by CPAs? For example, the government non-profit GAA/CPA program was abandoned and the manuals were sold.

MR. ROBERT ELLIOTT: Well, what I hear there is a practitioner saying if I do what you say and move my firm over in this direction, how do I know that I'm not going to be left high and dry by the Institute in two or three years and it is the program of the month and I won't get any support.

Now, obviously, I can't predict the future. But I sense that the level of the commitment of the AICPA to these issues is very strong, very deep.

If you look at the strategic plan that we have, these issues are issues number one and two on the top priority of our Strategic Planning

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2 Committee, of which starting tomorrow I'm the
3 Chairman.

4 (Laughter.)

5 MR. ROBERT ELLIOTT: In addition, I
6 think you can tell from what Barry has been telling us
7 in the year-and-a-half that he has been the President
8 of the Institute that there isn't the slightest chance
9 that Barry isn't going to remain market-oriented and
10 very much of a mind to meet these legitimate demands.

11 In the third place these demands are
12 not coming out of some smoke-filled room. These
13 demands are coming out of our analysis of megatrends,
14 our analysis of customer needs, and the focus group
15 and survey work that we are doing which tell us that
16 there are real demands here for these services.

17 So there is no way, if I have
18 anything to do with it and if Barry has anything to do
19 with it, that the Institute is going to back off from
20 the commitment to support our members in bringing new
21 valuable services to market.

22 (Applause.)

23 CHAIRMAN COHEN: Let's give him a
24 standing ovation.

25 (Applause and standing ovation.)

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2 CHAIRMAN COHEN: If anyone is
3 worried about the support of the Institute, I don't
4 think we have to worry about the support of the
5 Council, Bob.

6 Thanks again, Bob and the Committee,
7 for really just an outstanding job that they've done.

8 And I'm delighted to take on this
9 new committee. Last year I had to follow Bob Israeloff
10 and next year I have to follow Bob Elliott. I think
11 the year after that I'll go out and buy myself some
12 whips and chains.

13 (Laughter.)

14 CHAIRMAN COHEN: I told you this
15 was going to be an exciting and stimulating day and we
16 are not going to let up yet.

17 I'm now pleased to introduce Edith
18 Weiner, President of Weiner, Edrich & Brown, one of
19 the leading futurist consulting firms in the United
20 States.

21 Formed in 1977, Edie's firm helps
22 its clients in identifying opportunities in the areas
23 of marketing, product development, strategic planning,
24 investments, human resources, public affairs and
25 advertising.

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Their client list is widespread,
ranging from the U. S. Congress to many of the Fortune
500 companies.

Edie is acknowledged as one of the
most influential practitioners of social,
technological, political and economic intelligence
gathering.

She has been a guest lecturer at
Wharton, Harvard, Brown and a number of other
universities and has written numerous articles that
appeared in a number of accounting groups.

She has co-authored two books with
her partner, Arnold Brown, entitled "Super Managing"
and "Office Biology."

And she served on the boards of many
organizations.

And we really are very fortunate to
have Edie with us today. I think you're going to be in
for a real treat.

I would now like to present to you
Edie Weiner.

(A presentation by Edith Weiner was
heard by all assembled.)

CHAIRMAN COHEN: Thank you, Edie,

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for those remarks.

I have to apologize to Council. We had such a full agenda that I feel we did you a disservice by squeezing only forty-five minutes of presentation for you.

I think you've got a good flavor of what is in store for us in the future. I think, Edie, you did a good job.

We will now take a break for fifteen minutes. We still have a lot of agenda to go, so please try to get back by fifteen minutes after three.

(Which were all the proceedings at the Third Session of the Fall Meeting of Council which concluded at 3:00 o'clock p.m.)

* * *

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

Friday, October 18, 1996

3:20 p.m.

CHAIRMAN COHEN: Please take your seats so we can get started again.

Okay. Let's get started again. Please take your seats at the same table with the same handset that you had before.

We are running a little late. We need to get rolling.

I would like to now turn to agenda item No. 5. Agenda item No. 5 is a report from the Special Committee on Regulation and Structure of the Profession chaired by Curt Mingle and thus known as the Mingle Committee.

Edith Weiner talked about the problem that we all have with boredom today. I can assure you that we have done everything we can to make sure that you don't get bored in this room at least this afternoon. And I think the next item on our agenda certainly won't disappoint you either.

As you are all aware, the Regulation and Structure Committee has had really a major effort within the Institute for the past year.

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2 The Committee was created by Bob
3 Israeloff about a year ago when he was Chair of the
4 Institute and has been meeting over this past year in
5 a very aggressive fashion.

6 At the Spring Meeting of Council
7 last May we considered a number of questions using the
8 electronic voting pads that you have before you. And I
9 hope you have the same ones in front of you that you
10 had earlier.

11 We considered these questions
12 regarding various aspects of the regulation and
13 structure issue and some potential solutions to the
14 problems with the current structure and regulation of
15 the profession.

16 And the Committee used that input
17 that we got from Council last Spring. As I said, it
18 has had numerous meetings and has worked towards
19 refining its recommendations. And at the same time we
20 have formed an AICPA/NASBA Joint Committee which is
21 also addressing these issues, trying to move forward
22 in a parallel fashion.

23 And today, as you can see from the
24 materials you have received for this meeting, we are
25 going to devote about two hours to the Report of the

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Special Committee and its preliminary recommendations.

Let me quickly outline for you the approach that we are going to be using.

First of all, we are going to hear from Curt Mingle, our Chairman, and John Sharbaugh, Vice President of the Institute for State Society Regulatory Affairs, describing the Committee's efforts.

This will be followed by presentations from nine different individuals who represent various points of view, not just one point of view, regarding this issue.

And then we will follow that by breakout discussions at your tables to address a series of questions that are relating to this Report.

Now, you received the materials relating to the Committee's work including the questions that we are going to consider. And I hope that you have had time to look over the materials and consider the questions.

Following the table discussions, we will go through a limited series of questions using the electronic polling devices to give us further input so that the Committee can have more of your

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views in trying to come up with their final recommendations.

What we need is, particularly after you have heard what Bob Elliott's Committee had to say about new assurance services, hearing Edie Weiner, hearing Bill Gates, I hope that has been a motivation for all of us to try and really think out-of-the-box, particularly when it comes to these issues regarding regulation and structure.

They are really serious issues and there are no easy answers to what the solutions will be and we really all need to think very seriously and looking ahead rather than looking behind in terms of finding the answers.

So at this point I would like to turn the program over to Curt and John to give the Report of the Committee.

MR. MINGLE: Thanks, Ron.

It is a pleasure to be here with you this afternoon to update you on the activities of the Special Committee on Regulation and Structure.

You will note, those of you who were at Palm Springs last year, you will note that I am speaking slower than I did. I was warned about this.

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And I said: "Well, why is that important?"

And one of the people from the Institute said, "It's important that older members of Council, like Ron Cohen, be able to follow my remarks."

So if you think I'm a little slow, it is deliberate.

I'm going to briefly review for you the activities of our Committee since the last report to you, and then John Sharbaugh is going to explain the basic concepts of a proposal our Committee is looking at.

We also want to obtain your thoughts and feedback on the regulation of the profession and get your reaction to some key ideas our Committee has developed to improve the current system.

Now, I had a chance last night to speak to a number of people at the reception at the Field Museum. And it was interesting because people knew this report was coming and they were going to be participating.

And what was interesting to me was the number of questions that I got and the kind of

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questions.

And, of course, all of these people, with the possible exception of the bartenders last night, were CPAs --

(Laughter.)

MR. MINGLE: -- like myself.

So, naturally, all of the questions dealt with minute, little bitsy detailed-type things.

And I thought to myself, I want to make it clear very early in this group what the Committee is looking for at this point in time is to make sure that we have input on the broad concepts of what we are trying to achieve here.

For example, we have not yet decided what the size or the color of the reporting form for CPE will be.

(Laughter.)

MR. MINGLE: There is no need to put it at that level yet. Okay?

(Laughter.)

MR. MINGLE: Another question that I had last night, we have also not yet determined whether or not reading the book "The Gilford Principle" will qualify for CPE.

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(Laughter.)

MR. MINGLE: So just wait until we get into this and John is going to give you some detail, but it's going to be broad conceptual detail. That's what we need right now. I'm sure we will get this covered.

Once you, the leadership of our profession, agree with the broad concepts we are proposing, John Sharbaugh assures me the details can be completed with the typical glacier-like speed of all AICPA Committees, which means probably about fifty CPAs that are working -- arguing, I should say, day and night for about three years. But we will get it covered. Okay?

So, anyway, keep in mind you are going to have a tasting from a broad conceptual basis plate.

It has been approximately a year since I reported to you at the Council last year at Palm Springs about what our Committee was about and what we are up to.

As you remember, our Committee was appointed by then AICPA Chair, Broadway Bob Israeloff, in the summer of 1995.

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Our charge was to review the current regulatory environment and structure of the CPAs in the face of changing competitive economic conditions, and then to develop recommendations for the AICPA Board of Directors, again, designed to maintain high standards of professional practice for the benefit of the public.

Our Committee has a very broad range of members with varied backgrounds and they made a real contribution during a lot of difficult meetings.

We had really just started our work a year ago when we came to you to seek your input -- and we appreciate that input -- and the Council discussion on the issue. We talked about it at smaller breakout sessions, then it was summarized and filtered and all of that sort of thing. And that really was some assistance to us.

However, while this obviously was not a scientific study, we were hoping these discussion groups would give us somewhat of a pulse on Council's attitude. That is not to imply that Council has no pulse. Okay?

(Laughter.)

MR. MINGLE: And some of the key

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2 issues you did. But, unfortunately, Council's feedback
3 was not crystal clear. In fact, that's somewhat of an
4 understatement, John.

5 Let me quickly summarize what you
6 told us. Some of you are different people now, but
7 this is basically what Council told us a year ago.

8 First, the majority of Council felt
9 that the current State-based system of regulation did
10 not make sense in light of the changing business world
11 in which we operate, and the lack of uniformity in
12 State regulation is problematic to the profession.

13 Second, Council told us there was
14 general agreement that the Federal government should
15 not be involved in regulating the profession.

16 Moreover, there was no -- however,
17 excuse me, there was no consensus as to what type of
18 system would be better than the current system of
19 regulation.

20 Some favored a national independent
21 organization to handle regulation of the profession.
22 Others desired certification at the national level and
23 enforcement and licensure at the State level. Others,
24 of course, preferred the status quo.

25 Third, there was a mixed response

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and no clear direction on the issue of whether the regulatory structure should apply only to firms, only to individuals or to both.

Lastly, there was a mixed response concerning what CPA services should be regulated, varying from only attest work to everything in the world that CPAs do.

Armed with this knowledge that the Council agreed that the current system of regulation was broken, our Special Committee continued its work to develop recommendations for improving that system, the more difficult task on which Council did not express consensus.

Basically, what we got back from all of the people last year: yeah, the system is broken, we'll fix it, but fix it my way. So we have been working on that a little bit.

Early in our deliberation we established a set of criteria for evaluating alternative regulatory proposals. I shared this with Council last year. Let me quickly review this because this is kind of important. This is kind of the foundation of everything that we have done in all of the meetings and discussions that we have had.

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This is the criteria for evaluating alternative regulatory systems or proposals, if you will, compared to the one presently in place.

Our proposal will:

- Respect or protect the public interest;
- Require or mandate uniformity;
- Utilize private or public, meaning governmental, institutions whenever available;
- Ensure the rights to practice in all jurisdictions;
- Enhance the credibility and value of the CPA certificate;
- Provide a credible enforcement process;
- Be administratively efficient;
- Anticipate and to accommodate the profession's future, which is a lot of what we have been hearing about so far today.

And, equally important, of course, be responsive to member needs.

Our Committee worked and met all of the winter and eventually we developed a framework for a new regulatory model to improve our current system.

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This was the model our Committee came up with.

We thought our model achieves the criteria I just mentioned. However, you know, as we looked at it, the model was more conceptual in nature and not necessarily a workable solution.

The Committee felt a higher priority was to move to develop a solution that could be achieved. Okay?

So our next step -- I think, Ron, you mentioned this briefly -- was to approach NASBA, which is the National Association of State Boards of Accountancy, who, we knew, were also looking at ways to improve the current system, to see if we could join our forces in developing a joint set of recommendations for change, feeling that this makes a lot more sense.

A joint NASBA/AICPA recommendation for change is a major step forward. And we certainly need these people. We need their input, we need their ideas.

Now, this led to the creation of the AICPA/NASBA Joint Committee that Ron Cohen mentioned. And we met numerous times both in person and by telephone.

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Several members of the Special Committee serve as representatives on the Joint Committee with NASBA.

We shared with NASBA the ideas of our Committee. I mean we told them, please, here is where we are, guys, and this is certainly not something cast in concrete. This is just where our thinking is right now and the proposed regulatory model that we had come to at that point in time.

But we made it clear to NASBA that we were open to other ideas or ways to improve the system. This was not a "has to be our way" type attitude on the part of the AICPA and certainly has not been that way from NASBA either. We are both trying to achieve the same end.

Our bottomline was we were willing to entertain any proposal that would address two key goals.

Goal number one: improving and ensuring reciprocity in temporary practice and a mobility for CPAs in light of the move to a global economy and the use of new technologies in offering a performance of services for the public.

The second key goal was improving

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the current regulatory system to adapt to anticipated future changes in the profession and the way services are delivered, and to assure that CPAs are not placed at a competitive disadvantage with other providers of similar services.

Well, in our early meetings with NASBA we discussed the idea of trying to solicit input from our respective leadership groups on some questions and issues related to the regulation to see if there were any points of agreement between the two groups.

We jointly developed a series of questions that were used in electronic polling sessions at Spring Council which most of you know back in May. And also NASBA used these same questions at their regional meetings which were held last June.

Again, this was not a scientific survey or study. But the electronic polling gave us an indication of the areas where AICPA and NASBA leadership seem to be in concurrence.

Let me just hit a few highlights. And you've got some of this stuff so I'm not going to beat it to death. Don't worry.

But, for example, there are like

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three or four questions.

Here was one of the questions -- you remember? -- from last Spring -- or maybe you won't:

"Lack of uniformity in the way States certify, licence and regulate CPAs is a problem for the profession."

Now, I'm going to give percentages that agreed with that statement, both at AICPA, meaning our Council, our leadership, and the NASBA leadership as well.

Ninety-four percent of the AICPA people said, yes, that statement is true.

Seventy-six percent of the NASBA people felt that statement was true.

Then we kind of broke it down a little bit more.

"To what extent do you believe that once an individual is certified, they should be able to use the CPA title -- that means call themselves CPAs -- anywhere in the United States or in any U. S. jurisdiction?"

AICPA, ninety percent said that's a true statement.

The NASBA, sixty-eight percent said,

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yes, that also was a true statement.

Next question:

"Do you agree requirements for a CPA certification -- that means the right to use the title -- should be standardized and uniform in all U. S. jurisdictions?"

AICPA, one hundred percent, yes;
NASBA, ninety-one percent, yes.

Finally: "Do you agree requirements for licensure should be standardized and uniform in all U. S. jurisdictions?"

AICPA, ninety-five percent; NASBA, eighty-seven percent.

So you can see that there is a strong agreement by both AICPA and NASBA leadership that the current lack of uniformity in how States regulate is a problem.

And there was strong support for standardization, standardized requirements for both licensure and certification.

Now, that's the easy part.

Agreement on a new regulatory solution was not as forthcoming.

Presented with a list of possible

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2 alternatives for regulation of the profession, both
3 NASBA leadership and the AICPA Council members rated
4 the current State-based system is the best but with
5 uniformity. That was rated very high by both groups.

6 Since we've been -- you know, it was
7 like a 5.9 on a 7.0 scale for NASBA and 5.1 on a 7.0
8 scale for the AICPA.

9 So they say keep the present system,
10 just fix it.

11 Now, since we have been working on
12 uniformity of regulation in the United States for
13 about one hundred years, --

14 (Laughter.)

15 MR. MINGLE: -- this is sort of the
16 equivalent of saying I want to lose weight, but I
17 don't want to change my diet.

18 Council members did rate as the
19 second highest, 4.6 on a 7.0 scale, the concept of a
20 national CPA certificate by a private sector
21 organization and licensure to practice by State
22 Boards.

23 NASBA members rated this as -- rated
24 the status quo number two.

25 So using this information we gained

2 from all of the input -- and we certainly appreciated
3 it. And, of course, since this polling was in May and
4 June our AICPA/NASBA Joint Committee on Revision has
5 been meeting in earnest to see if we can develop a new
6 way to address the deficiencies of the current
7 regulatory system.

8 Currently, we are focusing on an
9 approach that uses the concept of substantial
10 equivalency for reciprocity and mobility.

11 The Special Committee on Regulation
12 of the AICPA Board of Directors have endorsed the
13 basic concepts of this approach and have encouraged us
14 to consider our efforts with NASBA to seek a joint
15 agreement.

16 The NASBA Board of Directors will be
17 hearing about this concept this weekend at their
18 meeting.

19 Our hope is that the AICPA and NASBA
20 can come to agreement on this approach or something
21 close to it in the very near future. The marketplace
22 is not waiting for this to happen.

23 We will continue to keep you advised
24 as our Committee activities progress. Today and
25 tomorrow morning we would like to get your input and

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feedback on the approach that we are taking.

And before I turn it over to John, and in keeping with the current political environment, I want to give you one more fact not covered in the materials previously described to you. Okay? It's important.

Once this proposal has been approved by you, it will also result in a sixteen percent across the board tax cut for CPAs.

(Laughter.)

MR. MINGLE: Which is the best deal on the table right now, guys.

(Laughter.)

MR. MINGLE: You know, I would also like to say, like Bob Elliott, I'm just a presenter, I'm just a reporter here for a hard working, aggressive, somewhat overbearing committee. But --

(Laughter.)

MR. MINGLE: Committee Members here, I'm kidding.

We've had a lot of fun, but it's kind of hard to keep control of these people, as I mentioned to you last year.

Also, we have to remember something,

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Council, from what Edie said. She said a whole bunch of interesting things, but that last point that she made really made sense to me.

We, the people in this room, are the ones flying the plane. And it's one more issue that needs to be addressed. And to fall back and say, well, I don't want to go to the 21st century, doesn't make any difference, folks, because the plane is going there anyway.

So, John, I'm going to turn it back over to you.

John is going to talk about the overall, the basic concepts for what we call, for lack of a better name, we call it substantial equivalency proposal.

John, you're ready?

MR. SHARBAUGH: Thank you, Curt.

If I can get them to bring up my powerful presentation, please.

Okay. Thank you.

As Curt has said, it's a real kick working with this Committee and we have a lot of leaders on this Committee. We've had a lot of ideas. And we've spent a lot of time arguing about these

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issues. There are a lot of different opinions. And I'm sure you have lots of different opinions and we are looking forward to hearing from you, getting your feedback on the concepts that the Committee has been discussing and working on for the last several months which I'm going to get into in just a minute.

Before I get into that though, I wanted to give you some thoughts about the future.

I thought about all of these people that went in front of me today, and Edie made that comment, now I need to follow her and all the people that were in front of her.

But I'm the youngest kid in my family. And I used to always think that it was bad to be the youngest kid in the family until I got a little older and learned that being the youngest kid in the family is actually the best place to be because you get to learn from all of your brothers and sisters ahead of you.

And so I get to capitalize on the fact that you have heard from all of these people who are a lot smarter than me, who have already spoken and who presented a lot of the types of issues that this Committee has been dealing with over the last year and

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the fact that we have to change and we have to look to the future and adjust the regulatory system to accommodate those kinds of things.

So as I was thinking about the future, I had some quotes that I wanted to share with you just to demonstrate how a brilliant mind can visualize what the future holds.

And here is a quote from somebody who said: "I think there is a world market for maybe five computers."

And who said that?

Thomas Watson, Chairman of IBM, in 1943.

Another quote: "There's no reason that anyone would want a computer in their home."

And who said that?

Ken Olsen, President and Chairman of Digital Computer Corporation.

And then the last one: "640K ought to be enough for anybody."

And that was Bill Gates, CO of Microsoft.

(Laughter.)

MR. SHARBAUGH: So the point is

2 that the future is going to be much different than we
3 can imagine. And many of the previous speakers,
4 especially Edie I think, got us to focus on that fact.

5 And so we have got to try to prepare
6 for that as best we can. Even some of the brightest
7 minds we have can't clearly picture what that future
8 is going to hold.

9 And it fascinated me when Bill Gates
10 spoke to us, he admitted that they had made a mistake
11 and didn't really see the future in one particular
12 area involving the Internet. But he and his company
13 were big enough to accept that and admit that and then
14 take the steps to get on with getting involved in that
15 market and trying to reposition themselves.

16 Another thing I think we have to
17 realize is that all organisms, systems and processes
18 evolve to adapt to their changing environment. I
19 thought about that last night when we were at the
20 reception with the lovely museum when we walked in
21 underneath the dinosaur. I love dinosaurs and I'm a
22 big Michael Creighton fan and I read all his books and
23 I'm reading his one now, the follow-up to "Jurassic
24 Park," which is about dinosaurs.

25 And he makes the comments in there

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about evolution and the fact that you do have to adapt and animals and systems and organizations that don't adapt die.

So you don't really have a choice about changing and adapting to the future. It's something that you have to do or you're not going to be around.

Let's get into the Committee's activities.

The Committee had two primary goals as it went about its task that it felt were important as we address the regulatory system and trying to change that for the future.

One of those was providing for portability of the CPA designation allowing CPAs to move across State lines and practice across State lines with the use of technology, to make that entire process easier than it is today.

A second primary goal that they had is redirecting the entire focus of regulation to meet the changing needs of the profession and the changes in the marketplace that are taking place.

And then after listening to Bob Elliott and all the members of his Committee talk, you

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realize that the future marketplace is going to be much different than the one that exists today.

And the third part, the third primary goal that the Committee had in mind, was to provide for uniform rules of practice in the States, something we had been working on historically, as Curt said.

Let's get into substantial equivalency. This is the concept that we have been talking to NASBA about as a means of trying to deal with this first issue of portability of designation.

What exactly does that mean?

What it means is that we would establish a system that compares an individual state's certification criteria to those that are in the Uniform Accountancy Act.

The CPAs from States that are deemed to be substantially equivalent or have criteria that are substantially equivalent to what is in the Uniform Accountancy Act would have automatic practice rights in other States.

That means on a temporary basis they could go across State lines and practice, they can use technology to go across State lines and practice, and

2 they wouldn't have to file an application with the
3 State Board in the other State because they would be
4 deemed to be substantially equivalent.

5 CPAs that would move to another
6 State though, if you wanted to go and establish
7 residence and set up a practice in another State,
8 would have to apply for a reciprocal certificate or
9 license in that State, but through this concept of
10 substantial equivalency the process would pretty much
11 be automatic. You would have to file the paperwork,
12 but it would be an automatic type process, a matter of
13 filling out the paperwork and paying the fee.

14 This is a concept that is similar to
15 a driver's license. That is what the Committee focused
16 on. If you are licensed to drive in one State,
17 obviously you can go, you can drive across State lines
18 and drive in other States. And you are obligated to
19 follow the rules of the road in that State but you
20 don't have to get another driver's license every time
21 you enter another State.

22 So we wanted to establish a concept
23 similar to that.

24 It's also a concept similar to what
25 we are already doing on the international front

1
2 through the work of the AICPA/NASBA International
3 Qualification and Appraisal Board where we evaluate
4 the criteria for certification of professional
5 accountants in other countries and compare that to the
6 overall standards that exist in the United States. And
7 when we do that, we utilize the Uniform Accountancy
8 Act as the standard. And those countries that match up
9 pretty much with what we have here in the United
10 States it will provide an easier means of reciprocity
11 for them to come into the U.S. and practice.

12 This is all taking place under the
13 auspices of the General Agreement on Trade and
14 Services which demands that countries provide access
15 for other professionals from other countries.

16 So a similar kind of concept that we
17 are striving for here upon the national level within
18 the United States would be to create a similar type of
19 organization that would make the evaluation and
20 compare individual State certification criteria to
21 what is in the Uniform Act.

22 CPAs, a lot of people have questions
23 about, well, how would this work with these automatic
24 practice rights in terms of disciplinary actions or
25 where the CPA would do something wrong.

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2 Basically, the State Boards would
3 rely on each other to cooperate in enforcement actions
4 and CPAs would be subject to disciplinary action in
5 their, what we call, home state for something that
6 they might do wrong in another State.

7 So it is going to require the State
8 Boards to cooperate on enforcement, but we think it is
9 something that is doable and it's far better than what
10 is going on today where CPAs are practicing across
11 State lines without notifying State Boards and in many
12 cases violating the existing rules.

13 What are the benefits of this that
14 the Committee sees?

15 One, it obviously is going to allow
16 CPAs to easily practice across State lines, certainly
17 more easily than they do today.

18 Two, it responds to the use of
19 technology, practices through the use of technology.
20 And back in May when we polled you on a series of
21 questions, eighty-four percent of the Council Members
22 responded that they use technology to service their
23 clients and sixty-nine percent of you said you do that
24 to service clients that are in another State from the
25 State that you reside in.

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So the use of technology is already here. You are already doing it. This concept of substantial equivalency is going to accommodate that.

It simplifies the reciprocity process.

As I said, CPAs who physically move, relocate, would still have to get a reciprocal certificate or license, but that process would become much more automatic and simpler than it is today.

And, lastly, it maintains protection of the public through this shared enforcement process by State Boards. So that I think this system would provide State Boards with actually more information or a greater ability to get at practitioners who do something wrong.

The second goal that I mentioned that the Committee was working on is refocusing regulation for CPAs.

What we mean here is that this will include the issuance of a CPA certificate or credential to use the CPA title and it will involve a CPA license to perform attest services. So that only those CPAs who provide attest services - which the Committee defines as audits, reviews and compilations

2 for third-party use - would have to obtain a CPA
3 license. Everyone else would have to obtain a CPA
4 certificate.

5 How would you get a CPA certificate?

6 Well, you obtain one when you pass
7 the Uniform CPA exam just like you do now and you
8 obtain a hundred and fifty hours of education
9 including a Baccalaureate degree just as is currently
10 proposed in the Uniform Accountancy Act.

11 What do you have to do to maintain
12 that certificate?

13 Well, the primary thing is that you
14 have to agree to adhere to a Code of Professional
15 Conduct. This is another question that the Committee
16 discussed at length, is that we have to make sure that
17 certificate holders hold to high levels of practice
18 and uphold the high level of integrity that the CPA
19 designation has in the eyes of the public.

20 So adhering to a Code of
21 Professional Conduct includes adhering to the basic
22 concepts of integrity, independence, objectivity and
23 competency that all CPAs are expected to adhere to.
24 But it also involves paying the registration fee to
25 the State Board for that certificate on a periodic

2 basis.

3 The CPA license, to obtain that,
4 first of all, you have to have a valid CPA
5 certificate. So to get a license, you start off by
6 getting a certificate and then you would meet some
7 type of experience requirement.

8 As Curt said, we haven't nailed down
9 all the final details, but the Committee in its
10 discussions envisions that that experience
11 requirement, since the license is only required to
12 perform attest work, would probably be more focused on
13 attest type of experience.

14 One of the problems that exists now
15 in many States is that CPAs can't get the experience
16 they need. Even though they are not going to practice
17 in the attest area, they still have to get attest
18 experience in some States. There aren't enough CPA
19 firms there to provide that type of experience.

20 Moving to this type of system is
21 going to help deal with that problem. It is also going
22 to focus the experience on the functions of the
23 license which is attest.

24 To maintain the CPA license you have
25 to meet CPE and peer review requirements just as you

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do now in most States, you have to practice in an appropriate firm structure and you would adhere to professional standards and other regulations that would exist for CPAs.

What are the benefits of this approach?

Well, first, it would place greater regulation on the most publicly sensitive areas, attest services. And this is something the Committee discussed at length.

One of their concerns in this future marketplace of services is to protect the attest function which is the most important function that CPAs provide, the most publicly sensitive function that CPAs provide.

And this would allow for a greater focus of our regulatory efforts on that particular service.

At the same time though it would allow CPAs to meet the competition in the non-attest areas which you have heard a lot about today already, that the marketplace is changing. Everything that CPAs do outside of the attest area they don't have a franchise on. There are many other people that compete

2 in those arenas and they aren't regulated and they
3 aren't licensed. This type of system, by refocusing
4 regulation, would allow CPAs to be better able to
5 compete in those areas.

6 It allows for differentiation in
7 regulations between certificate holders and licensees,
8 what I would like to call customization of regulation.

9 We heard a lot of speakers this
10 morning talk about the fact that one size doesn't fit
11 all for your clients or for customers in other
12 marketplaces. And it doesn't really make sense to
13 think that one size continues to fit all CPAs.

14 The regulation can be customized to
15 meet the needs of particular CPAs depending upon the
16 services that they are providing.

17 Another benefit, it enables CPAs to
18 work in business, industry, government and education
19 to use their title and remain a part of the
20 profession. In many states they can't. The
21 requirements that they have to meet to be able to do
22 that are far beyond the value that they see to do it.

23 So that this type of a system is
24 going to continue to include them, allow them to use
25 their CPA designation in the work that they do.

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It will continue to promote the integrity of the CPA credential through an enforcement code of conduct for all certificate holders. So it's not an issuance of a certificate for a lifetime. It is a renewable certificate and it's one that the State Board can discipline a person, take it away from them would be the most severe thing that they can do, but they still continue to discipline certificate holders who violate the code in some way.

The third primary goal that the Committee was focusing on is uniform practice rules. As you all know, states currently have variations, wide variations, in their practice rules.

We would continue to seek greater uniformity as we have in the past with the Uniform Accountancy Act, but we would put a more rigorous and focused promotion on that Act and we would do that with the cooperation of the State Societies.

And greater uniformity of practice rules just makes sense. Again, we are working in a global economy today and it will alleviate the administrative burdens that these different practice rules place on practitioners as they try to practice across State lines.

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I guess, in conclusion, change is never easy. But it is inevitable, as they say. It's the only thing that is constant, the only thing we can count on.

So as we move into the future, we have to learn to adapt to the changing marketplace and make changes so that we can survive. As Curt said, someone has to be flying that plane.

The Committee offers these basic concepts that we've described to you this afternoon. We think that they respond properly to change for they respond to the changing marketplace that our members are practicing in. They improve the regulatory system so that CPAs can meet the competition but yet they protect the integrity of attest services, the most publicly sensitive service that CPAs provide, and they maintain the protection of the public and the integrity of the CPA credential.

We hope that you will embrace them. We look forward to the comments that you have about them in the feedback that you give us in the group discussions and also in the electronic polling that will come a little later.

Now we are going to move into

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hearing from other speakers as Ron will introduce.

CHAIRMAN COHEN: To continue on this presentation to this squadron of pilots, I would like to call on various individuals from different parts of the profession - big firms, small firms, industry, other interested parties - to provide their views on the results of the Committee's deliberations to date.

These are people whose views may agree or may disagree. And we really don't know what many of these speakers are going to say.

We thought it was important for you to hear various views of how we look forward in terms of changing the regulation and structure of our profession.

The presenters will be limited to five minutes each and will be speaking from four podiums around the room, around the perimeter, so that each of you will have a chance to see some of them at least eyeball-to-eyeball.

We are going to first start with a videotape of Ronnie Rudd who is the Chairman of NASBA and unfortunately was not able to meet with us because of NASBA's annual meeting which starts this weekend.

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2 Ronnie is currently managing partner
3 of the San Antonio office of Arthur Andersen & Co. and
4 has had extensive experience with the AICPA.

5 He is a former member of our
6 Council, a former member of the Nominations Committee,
7 and a former member of the Nominations Committee of
8 the SECPS.

9 He was also Chairman of NASBA for
10 the 1995-'96 year and Vice Chair and Chair of the
11 Texas State Board of Public Accountancy, or was,
12 between the years 1989 and 1995, and has had numerous
13 activities with the Texas Society of CPAS including
14 having served as their President in 1986 and 1987.

15 So at this point we will have the
16 video of Ronnie Rudd.

17 MR. RONNIE RUDD (By video): My name
18 is Ronnie Rudd and I was the first Chairman of the
19 National Association of State Boards of Accountancy.

20 I want to thank you for inviting me
21 to speak to you today on the future of the regulation
22 of public accountancy.

23 We have been working with the AICPA
24 to resolve some of the issues in this area and will
25 continue to do so.

1
2 I apologize for not being with you
3 today to engage in the debate, but our annual meetings
4 overlap somewhat and I have been asked to speak to you
5 via this way.

6 The National Association of State
7 Boards of Accountancy is composed of the fifty-four
8 Boards of Accountancy. We are a creature of State or
9 other legislative bodies and any changes to our Boards
10 must be made legislatively.

11 NASBA has to build consensus from
12 the ground up from its member boards. We are run by
13 these member boards and not by the leadership.

14 As members of State Boards of
15 Accountancy, we quite often see things differently
16 from the American Institute. We are responsible for
17 regulating all CPAs of which only about sixty percent
18 are members of the American Institute.

19 I can tell you that when I served as
20 a member of the Texas Board, a very disproportionate
21 number of the violations of rules came from members
22 who were not members of the American Institute.

23 Nevertheless, we, as members of
24 State Boards, had a responsibility for regulating all
25 CPAs.

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2 When we entered into discussions
3 with AICPA on the future of regulation, we felt that
4 three things were necessary.

5 Number one, a well-articulated
6 statement of the problems that were to be addressed.

7 Secondly, proposed resolutions to
8 these problems that would have wide acceptance by both
9 our member Boards and State CPA Societies.

10 And, third, a plan that had a
11 reasonably good chance of being adopted by
12 substantially all of the State legislatures.

13 As of the filming of this speech, we
14 have not satisfied those objectives although we are
15 continuing to work. Hopefully, we can satisfy a number
16 of them before our respective annual meetings.

17 Before discussing the problem areas,
18 let me tell you the areas where I believe we have
19 general agreement.

20 First, interstate mobility.

21 We agree that this is a problem. I
22 think everybody would agree that it is a major issue
23 that needs to be addressed in any restructuring of the
24 profession.

25 A lot needs to be done before States

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can be a part of an increased mobility pact. I will come back to some of the problems in this area in a moment.

Second, the electronic practice of public accounting.

We are very concerned about the practice of public accounting across State and international lines by means of electronic communication.

We believe a mechanism for addressing this electronic process is needed. We at NASBA already have a committee that is actively involved in working on this project.

Third, new standards.

If the Elliott Committee is even partially correct in its projection of the future, we do not currently have a mechanism for regulating the result. We must address this since the future of the profession and the regulation thereof is at stake.

Fourth, the rapidity of change.

The financial world is changing rapidly. Each year we believe that it is going to change more rapidly than it did in the previous year.

Any regulatory scheme which is to

1
2 survive the future simply cannot wait for fifty-four
3 State legislatures or legislative bodies to change
4 their laws. We must admit that we do not know a
5 solution to this problem, but any massive change
6 should try to deal with it.

7 Now, let's go back to the issue of
8 interstate mobility.

9 We at NASBA agree that the process
10 inhibiting interstate mobility needs to be addressed.
11 Almost everyone agrees on this.

12 The salient question then becomes
13 what are the minimum requirements that a State must
14 have in order to be a part of a mobility pact and to
15 allow automatic practice of public accounting in the
16 State.

17 These minimum requirements will have
18 to be in place to assure that the lowest requirements
19 of any State do not become the national norm.

20 We at NASBA are actively working to
21 attain what we call substantial equivalency, that is,
22 the licensees of any State with substantial equivalent
23 standards would have the automatic right to practice
24 in any other States with those standards.

25 Our understanding of AICPA's

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position on minimum requirements is as follows:

First, definition of holding out. We do not seem to have much difference with AICPA on this issue. The Institute would define "holding out" as pertaining to attest work only. At NASBA we believe that some additional services, primarily tax, should come under regulatory purview.

We believe that we might be able to accept the modified AICPA version as long as violations of the rules of non-attest work, again primarily in the tax area, could be prosecuted for sections of our rules labelled as acts discreditable.

We understand the Institute's general position to be that persons who hold valid CPA certificates should be able to call themselves CPAs. We are in general agreement with this.

In any case recent court decisions will probably render most of the problems in this area to be unconstitutional.

Third, one tier/two tier system of regulation.

As of this filming, we have not seen a well enough articulated argument for a two-tier system for us to conclude that a two-tier system has

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widespread support.

In both the Spring Council and in our regional meetings we found that there was great misunderstanding of what a two-tier system meant.

Many of our member Boards have expressed great concern over adopting a two-tier system approach and these concerns must be addressed.

In some States, such as Texas, the physical implications of a two-tier system make it virtually impossible to be achieved legislatively.

We look forward to the debate on this issue and are keeping an open mind on it.

We are willing to admit that a two-tier system does work effectively in some States.

Fourth, experience.

We at NASBA have debated the issue of experience requirements for a long time. Despite the lack of evidence clearly demonstrating the need for an experience requirement, the majority of our member Boards have indicated that they want to retain such a provision.

If we were to adopt a two-tier approach, the experience requirement might be required only for the licensing portion. We are willing to put

1
2 this issue on the table at NASBA particularly if a
3 meaningful experience requirement is directly tied to
4 the licensing feature.

5 As a side note, we do have serious
6 reservations about abandoning an experience
7 requirement because of what it does to us in the area
8 of international reciprocity.

9 Fifth, firm ownership.

10 NASBA has not taken a position on
11 firm ownership but will open the debate, if necessary.

12 Sixth, education.

13 We are in agreement with the AICPA's
14 position in this area, particularly with regards to
15 the hundred and fifty hour rule.

16 Seventh, examination.

17 We see no areas where we disagree
18 with the American Institute in the examination area.

19 And a final area is commissions and
20 contingent fees.

21 We have not taken a position in
22 NASBA on whether to prohibit commissions and
23 contingent fees. Our data indicates to us that most
24 States are moving rapidly in a trend to permit this
25 practice.

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We are willing to debate this issue, if necessary, to come up with a new model.

As I said, forgive me for not being there today to debate the issues with you.

As a long time member of Council, I know that you will unanimously adopt the positions of your Board just as at NASBA.

(Laughter.)

MR. RONNIE RUDD: Thank you.

CHAIRMAN COHEN: We were worried as to whether anybody would take that last sentence seriously.

(Laughter.)

CHAIRMAN COHEN: The next speaker is Kevin Simister. He is currently the senior partner and head of technology services for Hawkins, Cloward & Simister in Orem, Utah, and currently a member of the AICPA Council, past President of the Utah Association of CPAs and he has published various articles dealing with accounting and management.

And he at the podium on my left.

MR. KEVIN SIMISTER: Thanks, Ron.

I know how Edie felt. I feel kind of like my tax return extension just expired.

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(Laughter.)

MR. KEVIN SIMISTER: Let's recall a simple story that each of us learned at our mother's knee.

One day this little red hen was nearing the end of college and she decided the smart thing to do was to become a Certified Public Accountant.

She studied the requirements, and even though they were arduous, she decided to try.

"It will take more work," she explained, "but it will be worth it to become a real CPA."

Very excited, she went to her friends in the Master's program.

"Who will work at a CPA firm with me and gain valuable experience?" she asked.

"Not I," said the duck.

"Not I," said the goose.

"They don't pay enough," said the pig.

So she went herself and learned a lot.

After her experience she was proud

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2 of her effort and even more proud of her shiny new
3 certificate. So she wanted to keep it.

4

"Who will come with me to a CPE
5 class this year and every year?" she asked.

6

"Not I," said the duck.

7

"I don't need it," said the goose.

8

"It's not relevant to me," said the
9 pig.

10

So she went by herself and she
11 learned a lot.

12

Later, the little red hen found it
13 was time to have her work reviewed by a group of her
14 peers.

15

"Who will have a peer review with
16 me?" said the little red hen.

17

"It's too expensive," said the duck.

18

"I only do taxes," said the goose.

19

"Who are they to judge me," said the
20 pig.

21

So she had the peer review herself
22 and she learned a lot.

23

The little red hen observed the
24 highest professional standards and a zillion
25 regulations even though she didn't agree with them

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sometimes.

She encouraged her friends.

"Who will abide all these rules and regulations with me?" said the little red hen.

"Too restrictive," said the duck.

"I get my commission," said the goose.

"Why me?" said the pig. "I'm just a financial planner."

So she did it herself and learned a lot.

Through her whole career the little red hen enjoyed great success. She was proud of her credentials earned at great expense and through years of hard work.

One day she was having lunch with her friends and said: "Who will be a CPA with me?"

"I will," said the duck.

"I want to," said the goose.

"Me too," said the pig.

"No," said the little red hen, "you didn't earn it."

So how does one earn the title Certified Public Accountant?

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Well, it depends on whether you consider being a CPA an event or a process, whether you look at your certificate as a trophy or a tool.

A trophy is something you hang on your wall, as something to impress visitors and something to give you a little wow about.

A tool is something that you use and you cherish. It's something that requires constant maintenance. It has to be oiled, it has to be polished and it needs an occasional overhaul.

A certificate is not a trophy and it's not an event. It's a journey we have to continue to expect to hold the public trust.

Look at what the two-tier system creates: a whole class of people who receive the honors, privileges and prestige and credibility of CPAs, but do nothing for it except pass the exam and then stay out of jail.

These bargain basement CPAs get a lifetime, no maintenance, bumper-to-bumper warranty.

Contrast, we have the working class CPAs who pay for their certificates everyday. They undergo CPE every year. They undergo the inconvenience of peer reviews.

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How can we possibly say that these two groups are equal?

So how do I respond to those who feel the need for some sort of accreditation beyond their academic certifications?

I respond in three ways.

First, those with Master's and Ph.D. degrees already have the reward they sought. They wanted academic certification and they got it.

The fact is there are lots of additional certifications: CMA, CLU, CMP. There are a lot of others.

And if they aren't enough, I would propose one more following designation. Can I have the first slide, please?

The Master's Educational Accreditation Certified Unlicensed Private Accountant.

The next slide, please.

The Mea Culpa.

(Laughter.)

MR. KEVIN SIMISTER: Okay. Take that down.

Second, the two-tier system creates irreconcilable confusion in the minds of the public, a

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distinction without a difference. They'll never understand it. And if you doubt this, ask yourself how many times one of your tax clients has referred to you as their auditor.

The public will hold all of us, certified and licensed alike, to the same standard. And when one of us fails, we won't be able to say "but, but, they weren't licensed." We'll all be painted with the same brush.

Third, consider the administrative nightmare of a two-tier system. It isn't new. Utah tried it a few years ago and it simply didn't work. The Department of Business Regulation found it impossible to track those who were just certificate holders.

There were so many complaints that the Department finally came to the UACPA and asked for help in eliminating the certificate class. Simply put, certificate holders are uncontrollable.

It's very ironic for us to sanction a class of accountants who are unaccountable.

And a sad part of all of this bringing down the requirements destroys the very fabric of the honors sought by those unwilling to pay

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full price. So in the end we all would lose.

Now we live in a world where pursuit of excellence is often expendable rather than essential. It's a world of veneers, nothing solid wood anymore. If you look below the shiny surface, you find particle board.

And in this world there is one group that continues to hold the trust and respect of the public, not only to maintain this dignity but raise it, Certified Public Accountants.

We are solid wood all the way through. We have accomplished this by raising our standards, not lowering them, by expecting more and not less. Why change that?

(Applause.)

CHAIRMAN COHEN: Thank you, Kevin.

Our next speaker will be Buddy Turman. Buddy is the Executive Director and Secretary/Treasurer of the Florida Institute of CPAs since 1976. He also served as the Secretary/Treasurer for the Florida CPA Political Action Committee and its Educational Foundation.

Prior to joining the Florida Institute, he served as Legislative Director and Chief

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Lobbyist for the largest non-profit agricultural association in Florida.

He's also a member of the American and Florida Society of the Association of Executives.

He's speaking from the podium again to my left.

MR. BUDDY TURMAN: Okay.

Five minutes is quite a challenge because last month I met with the Florida Board of Accountancy for two solid days on this particular issue.

For some time we have been talking about a different regulatory scheme in Florida. Most of it has been because of a fall-back position that we want to be prepared for if we lose -- the Florida Board loses the case involving American Express.

Well, as I thought over this issue and I thought over the amount of time that we have to talk about it, it reminded me of the question how do you eat an elephant. And the answer is, you do it one bite at a time.

So let's break this down into what I think are the three or four of the most critical

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2 elements of the report and let's discuss those
3 individually first.

4 First is the portability and
5 uniformity of the certificate.

6 And you have heard an explanation of
7 substantial equivalency. And I can tell you this
8 greatly improves on the original concept of a national
9 certificate.

10 I can tell you, however, there is no
11 feeling of emergency that I've picked up either at the
12 Florida Board of Accountancy or in Florida that there
13 is any need to change and have portability or
14 uniformity with regard to all certificates.

15 Equivalency; what does that mean?

16 When you stop to think about having
17 all these different States and jurisdictions, is it
18 going to be the lowest standard or is it going to be
19 highest standard?

20 How did we get to where we are
21 today?

22 It was by continuing to raise our
23 standards around the country.

24 I think that having an equivalency
25 has been demonstrated in a number of areas and most

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2 often comes out to be the lowest common denominator
3 that everyone can fit in under.

4

Anybody that has a certificate in
5 another State is going to want it to be recognized in
6 every other State.

7

I want you to know that, even though
8 individuals have to meet the educational requirements
9 in Florida at the time of the exam, that I was told by
10 a member of our Board of Accountancy that the last CPA
11 exam held in Georgia had more Florida graduates
12 attending to take the exam in Georgia than there were
13 Georgia graduates during the exam.

14

These people will have to meet the
15 educational requirements in Florida, but they
16 obviously don't intend to come back, or if they do,
17 they want to do it in industry and not in public
18 accounting practices.

19

So that to think that you will be
20 able to continue to raise your standards, that the
21 fifth year won't be impacted unless the standard is
22 the fifth year, then I think you are making a mistake.

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The second area, major area, besides
24 the portability and uniformity is what I will refer
25 to, and it has been referred to, is the competitive

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issues or the competitive pressures.

I think we have all seen them. I think that they are real. I think that there are a number of things that we can do in order to address those competitive pressures and I think maybe it is time to do those.

There are laws around the States and all the States don't have compatible occupations. There are laws on hundred percent ownership by CPAs. There are laws that prohibit CPAs from using special designations to trade on. And there are laws that do not allow commissions and contingent fees.

Ladies and gentlemen, those are the laws that are -- the competition -- those are the laws that our members want us to change. Those are the ones that they sit back and say we want to be in the marketplace as businessmen and business people.

Well, as I said, maybe it is time to change those statutes and maybe we can come to some agreement on what those statutes ought to say. We really don't find a great deal of problem in doing that.

I think that it would be helpful to have some uniformity and to open the way to synthesize

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what's happening in the marketplace.

The third area is the definition of practice of public accounting. And what happens to the definition of the practice of public accounting is a two-tier system.

You have a licensed -- what I'll call as a licensed audit firm or audit practice and you end up licensing the audit practice and licensing the certificate holder.

Well, ladies and gentlemen, I want to ask you. What happened to the regulation of the non-attest CPA firm? Because they're not licensed. And if they're not licensed, they are not regulated.

This is a major deregulation of the accounting profession.

And if you stop and take a look at what this does, it legitimatizes American Express and the American Express look-alikes that are coming out in all of the States.

And it absolutely allows the escape of regulation of CPAs and their employment.

There are a couple of other problems with that particular approach.

The first one is it is absolutely

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premature to give up on this issue. The American Express case is in litigation. It's under appeal. We think we have a very good chance in Florida of winning that case.

Our Board of Accountancy has taken the position that the current holding out requirement that follows the CPA holder wherever they go, whatever they do, is the best way to protect the public.

And we are going to continue to fight for that particular position.

To create a licensed audit firm or the two-tier class is controversial within the profession. I think that you are going to find that.

The third area is we haven't dealt with the question of plainpaper financial statements. If a CPA -- if it's clear that a CPA is issuing statements according to standards, then he is subject to certain regulations.

Well, what if a CPA issues plainpaper financial statements not in a traditional accounting firm that's not regulated by the Board of Accountancy? Is that going to be a problem? Do you care if it's a problem? Does it matter whether it exists?

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And, finally, you heard references to holding certificate holders -- holding certificate holders responsible for standards, a code of conduct.

Such a code of conduct simply does not exist. Other than fraud and other than incompetency, that's all you have on a certificate holder. And I would suggest to you that the certificate holders, as the previous speaker said, will be beyond any significant form of regulation.

Well, where do we go?

I think that there are a number of things that we can do.

I think the portability and the uniformity issue are real.

I think that the four competitive issues that I've just described dealing with such things as commissions and contingency fees should be dealt with, they should be changed and I think we should address them.

However, I want to tell you that, for me, in assessing what the chance is that our membership, our licensees, embracing a licensed audit firm, separation of the audit function, at this time and deregulating the profession to this extent has

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about as much of a chance as pigs do to fly.

And I think that there is going to be tremendous backlash on this particular issue.

Now, having said that, let me tell you there is one caveat. And that caveat is that if American Express prevails, then I think maybe pigs can fly.

We might have to address this issue in the manner in which this Committee has suggested.

But I'm here to tell you I think it's premature at this time to embrace it. I think it does detriment to the lawsuit. I think it sets forth a standard which is much lower and is not nearly as important to the public interest as our current holding out rule.

I want to compliment the American Institute and its Committee for what I consider to be an excellent tool. I think it's a great jumping off place. I think the debate is a good idea.

And I think that something very positive can very well come out of it, but it does need some more work.

CHAIRMAN COHEN: Thank you, Buddy.

(Applause.)

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CHAIRMAN COHEN: Our next speaker is Jerry Harris. He is a member of Checkers, Simon & Rosner in Chicago, a member of the firm's Executive Committee. He has been active in the Institute and the Illinois Society of CPAs.

He is also a founding member of EKRM National worldwide and holds the office of Vice Chairman and is a member of its Executive Committee.

Jerry.

MR. JERRY HARRIS: Thank you, Ron. Just to give you a little more background on our firm.

Our firm was founded in 1927. We are a fourth generation firm with a traditional practice that makes up probably around fifty to sixty percent of the revenue.

We have one staff led office in Florida. Our office is in downtown Chicago.

But interestingly enough, we practice across -- around -- across states and territories.

In order to get started, I would like to tell you a story that occurred about two years ago. We have a small office in Orlando, Florida. My

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2 partner who was running that office which focused on
3 time share, left to go to a client. We had to get
4 another couple of partners licensed in Florida.

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6 We sent away for the information and
7 provided the State of Florida with all kinds of
8 information as filed -- which contained like our
9 Illinois license. Our two people did, in fact, hold a
10 degree, CPE requirements. And we also had to provide
11 information about passing the exam.

12

13 Lo and behold, one partner's came
14 back with information that they said they couldn't get
15 a license in Florida because Florida said that they
16 hadn't passed the exam about twenty-five years ago.

17

18 It seems in Illinois at that time,
19 Illinois graded the theory and practice together where
20 Florida separated them.

21

22 And unbeknownst to this partner, who
23 passed the exam the first time, Florida said that he
24 didn't get a high enough grade in practice. I think he
25 came back and told me he got a 73.

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27 So what Florida said in order for
28 this partner to get licensed in the State of Florida,
29 he would have to take the exam again.

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31 And, by the way, he has to meet the

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hundred and fifty hour requirement. He has to go back to college in order to get licensed.

To be able to practice in the world today with that type of onus I don't think works.

Many of the rules that we are living by today were developed over the last forty or fifty years. Our practices are much more mobile.

I know that one of the Group B firms has, I believe, one-and-a-half people who does nothing more than look at the licensing requirements and try to figure out how they, in fact, meet the various State regulations in the States in which they practice.

We have to, as a firm, get various temporary certificates in order to practice across State lines even though we are practicing out of Chicago.

We have clients that have moved all across the country where we provide tax services. Does this mean that every time that we do a tax return for someone who is in California, Colorado, we need to register within that State to provide tax services?

In addition to that, we provide tax compliance and consulting services, computer services,

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changed management programming, systems design and implementation, ISO-9000, Medicare and Medicaid cost consulting, strategic planning, litigation consulting, forensic accounting.

Does that mean when we go across the country, we have to register in each one of those States to do that type of service?

People who work in DDN don't have to do that.

My view is to regulate us where we compete against non-CPA firms becomes silly in the marketplace we practice in today.

The marketplace makes the decision as to whether or not we are competent in those services. It is to our disadvantage.

The attest function on the other hand, the one thing that we can do that no one else does, we need to protect and to continue to regulate.

The future should be that of having flexibility for the public good, not inflexibility.

What is to the benefit of the public?

The benefit of the public is that the attest function stay strong and we continue to do

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what's necessary to regulate. And that includes the independence related thereto.

Let us follow our clients no matter where they go and not to have worry about having to register within that State as long as we, in fact, have a national license.

We as a firm support the Mingle Report. We think it is a step in the right direction.

The other services should not be -- should not, in fact, be regulated.

We need a national license within the uniform requirements. We need -- we should be required to register in a State when we have -- someone, in fact, moves to that State.

As far as a two-tier system, I believe it's pragmatic. I believe it's what is needed.

I think at this point in time fifty percent -- more than fifty percent of the Institute, in fact, are members of industry. To say that they can't be designated as a CPA I don't think recognizes the realities of the world that we live in.

I commend the Special Committee and we, as an organization, give it its full support.

Thank you.

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CHAIRMAN COHEN: Thank you, Jerry.

(Applause.)

CHAIRMAN COHEN: The next speaker is Bob Basten, who will join us by satellite. Mr. Basten is the President and CEO of American Express Tax and Business Services, a subsidiary of American Express Financial Corporation.

He has experience in leading the development of new business both inside and outside of American Express.

Since he joined American Express, he has held leadership positions in technology, marketing and brokerage. He was a professional football player with the Minnesota Vikings for two years.

And those of you who are subscribers to The Practical Accountant will notice that his picture and the cover story was about Mr. Basten and American Express, the latest issue.

We'll go to satellite.

MR. BOB BASTEN: (Via satellite.)

Good afternoon.

I appreciate the opportunity to join you in this open sharing of ideas.

With five minutes and an audience

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comprised of the thought leaders in the profession, I won't waste time elaborating on all the changes that will impact us in the future.

I will say, however, that despite how smart any of us might be, the problem with the future is that it usually arrives before any of us are truly ready for it.

This is the case pertaining to the regulation of the accounting profession.

As a national organization, American Express recognizes the difficulty of practicing under any State requirements. As a result, we support national regulation or uniformity of State regulation.

However, today, State regulators lack the resources and expertise to regulate non-accountant services.

Furthermore, the State Boards of Accountancy currently create a situation where the regulators and the regulated are one and the same. This is a conflict, an independence issue of sorts, created by the existence of economic interest in the outcome of who does or doesn't compete in serving the best interests of the public.

As an alternative, we do support the

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existence of an unbiased agency similar to the SEC or State Insurance Commissioners that do not have their own economic interest at stake in formulating regulation.

Building and protecting the reputation of CPAs is not a legitimate goal for regulation. It is, instead, a role of a trade organization.

Regulation or the outsourcing of police powers, however, is not the rightful business of a trade organization. A trade organization by its very nature is designed to protect its members not the public. Its interest strikes me as an attitude that will only lead to the expansion of a CPA monopoly.

We believe that regulation should be limited to the public function - financial statement as attest. We do not, however, support a regulatory structure that reserves compilation for only licensed CPA firms. This is an unnecessary extension of the CPA monopoly.

Attest financial statements do not include compilation and, accordingly, independence is not required.

If the Committee's intent in

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deregulating non-attest services is to even the playing field and encourage competition generally because it's good for consumers, we are supportive.

However, the goals to increase mobility of CPAs to compete but not have others compete with CPAs, this then appears to be one-way competition, and as a result we are not supportive of it.

Two years ago, American Express stood far outside the accounting profession. Two years from today I believe that many of the leaders of the profession will come to stand as leaders of American Express and also continue in their roles as leaders of a changing accounting profession.

While American Express is often described as creating change in the profession, the reality is that powerful marketplace forces are changing the accounting profession.

As leaders, you too must respond to the changing marketplace by creating a relevant regulatory system that promotes the best interests of the public.

Regulation should promote competition not stifle it.

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It is competition that has made American industry great. It is the removal of unnecessary laws that restrict competition that will also be best in serving the long-term health of the accounting profession.

As a general rule of thumb, if something has always been the same way, chances are it is now the wrong way to do it. This is the case pertaining to regulation in the accounting profession in a rapidly changing marketplace.

I, and the very constituencies as CPAs who have dedicated their careers to serving clients, challenge you to act with integrity in transforming regulation to truly serve the best interests of the public.

I, along with a growing number of CPAs who have dedicated their careers to serving clients that now choose to do so as part of American Express because they believe it is the right thing to do in a changing marketplace, also challenge you to keep regulation fair.

I wish you the best and I assure you that we at American Express will follow the Committee's recommendations very closely.

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Thank you.

CHAIRMAN COHEN: Thank you, Mr.
Basten.

(Applause.)

CHAIRMAN COHEN: I'm sure as you
all realize we are running a little bit behind. We
will be able to finish this today perhaps just running
over a little bit.

So I urge you to bear with us and I
also urge the remaining speakers to stick to the five-
minute limit.

Our next speaker is Mike Ueltzen,
currently managing director of John Waddell & Co. in
its accounting and auditing practice in California.

Prior to that, he was with Peat,
Marwick & Mitchell.

Currently he is a member of the
AICPA Council, Chair of the California delegation to
the AICPA Council, and a member of the California
Society of CPAs with service on numerous California
Society committees.

Mike.

MR. MICHAEL UELTZEN: Thank you,
Ron.

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I'm not sure why I had to follow American Express. Being from California we're not sure what the significance of that is.

I believe we have to frame the question that we are discussing in a proper fashion.

For those of us that are Tom Clancy fans, we just learned that Jack Ryan, the main character in all of his books - "The CIA Agent," and he wrote "The Red October," has just assumed the presidency and as matter of fact he passed the CPA exam. You'll find that on page 434. But he did not get his experience before he joined the Marine Corps and subsequently moved on to the CIA.

The question is should Ryan be able to hold himself out as a CPA, can he practice in other States, and how should he be regulated.

And I would suggest to you that Ryan would have problems with the current system.

But let me share with you some experiences that we had in California so that the entire regulatory system can be put into a perspective.

When Governor Wilson took office some six years ago, we felt very secure with the

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relationship that we had with him and other representatives in the legislature.

However, in March of 1996, in an effort to distinguish himself from the rest of the presidential aspirants, the Governor developed a program that constituted the cornerstone of his presidential campaign.

And it called for a significant privatization of government functions coupled with a minimum of government oversight of the marketplace.

While this constituted his platform, I think it important to realize that there are others throughout the nation that believe a similar platform of government oversight and regulation of the professions could follow this model. It is not unique to California.

Let me describe how it could have impacted the certification, licensure and regulation of the profession in California.

As it relates to the certification process, the Governor questioned the following elements of our profession.

First, the CPA exam was perceived as a barrier to the entry into the profession and that as

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such both the relevance and the passage rate had to be questioned.

They observed that the CPA exam has the effect of precluding many individuals from practicing public accountancy.

Second, the Governor's administration questioned the relevance and the necessity of Continuing Professional Education and claimed that it also constituted a cost that was borne by consumers for which there was no demonstrated benefit.

Third, while the Governor did not question the education required to become a CPA, California, unfortunately, is one of the few remaining States that has not been able to provide for a one hundred and fifty hour educational option to obtain the CPA certificate.

As it relates to the licensure of CPAs, the Governor's administration questioned three elements of the licensing process.

First, they questioned the necessity for an experience requirement and asked that we demonstrate that the attest experience was not a barrier to the entry into the profession and that it

1
2 was relevant to the practice of public accountancy.

3 Secondly, they believed that all
4 individuals, not just CPAs, in the State of California
5 should be able to call themselves accountants.

6 We had a State Supreme Court
7 decision that precluded non-licensees from describing
8 themselves as accountants without appropriate
9 disclosures.

10 Third, the administration initially
11 believed that all attest services should be open to
12 all. The marketplace could determine whether or not an
13 audit could be performed by a CPA or an independent
14 accountant.

15 Initially, their proposal would
16 allow anybody to perform audits, reviews and
17 compilations, and that it would be the marketplace
18 that would make the distinction between an audit
19 performed by a CPA or an independent accountant.

20 The administration was challenged on
21 this issue, recommended that we launch a significant
22 image campaign that would probably dwarf the AICPA
23 program to demonstrate to the marketplace the
24 significance of the CPA certificate.

25 We also had issues with respect to

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the actual regulation of the profession that were relatively nominal in nature and they dealt with the issue of the composition of the State Board of Accountancy as well as the regulation of CPAs.

I have to add that at this particular point, when the threat became real, not only were we able to call upon our resources within our State Society, but we met with Ron Cohen, Bob Mednick and Barry Melancon who recognized the potential nationwide impact of this proposal.

We then received significant impact from John Hunnicutt and John Sharbaugh's office who developed a strategy team that pulled no stops and, quite frankly, in the final analysis we were successful in moving the Governor away from his much cherished platform. But the issues still remain.

We were successful in reinstating our State Board of Accountancy. However, we are obligated by statute to study and report to the legislature on the following topics:

One, the relevance of Continuing Professional Education;

Two, tier term licensing which means the use of the term accountant;

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2 Three, the relevance and validity of
3 the CPA exam;

4 And, four, the relevance and
5 validity of the attest experience.

6 Significantly, the prospect of
7 opening up attest services to all in California
8 appears to be remote at this time.

9 Ryan would have problems in
10 California. He lacks experience, he cannot be a
11 California CPA. Assuming that he had one hundred and
12 fifty hours he could be an Illinois CPA. He could
13 practice in California provided he could get a permit.
14 However, if he moves into California, we don't grant
15 reciprocity because he would lack experience. And I
16 might also add nor would he be able to hold himself
17 out as a CPA.

18 Something is wrong with the system
19 when you cannot cross statewide borders with a
20 license.

21 (Applause.)

22 CHAIRMAN COHEN: The next speaker
23 is Tommy Ross. He was the Past President of the
24 Mississippi Society of CPAs and currently is the
25 Chairman of the Mississippi State Board of Public

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Accountancy.

Also served on NASBA, on the Uniform Accountancy Act Committee, and has experience with various AICPA committees.

Tommy.

MR. TOMMY RYAN: Thank you, Mr. Chairman.

Please be aware of the fact that when I speak on this matter, I do not speak for NASBA or the Mississippi Board of Accountancy.

However, I did speak for the Mississippi Board in our Letter to the Editor of The Journal of Accountancy, which was published in the June 1996 issue.

The primary reason for our opposition to Mr. Mednick's proposal as presented in the March issue of The Journal was not that we were opposed to change. We, however, are totally opposed to the thought that it would be appropriate to establish an AICPA Administrative National Qualification Service.

Basically, public accountancy is a self-regulated profession. The vast majority of the State Accountancy Boards' members are CPAs.

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2 The difference is our State Board
3 members have sworn to put the public's interest before
4 the profession's, while those who wear the AICPA
5 mantle are expected to keep the profession's interest
6 foremost.

7 I fail to see how any consumer
8 advocacy group could buy off on a system that allows a
9 trade organization to have complete control of who is
10 licensed initially and who is allowed to keep their
11 license.

12 Such a system invites abuse.

13 If there is no license involved
14 because there is no public interest involved, that's
15 okay. A trade organization can be in charge of
16 credentialing.

17 But if that's the case, don't call
18 yourselves Certified Public Accountants.

19 You have a trade organization
20 certifying a trade designation just as you have
21 certified financial planners, certified trial
22 examiners, certified information systems analysts, and
23 certified internal auditors.

24 Only the CPA is licensed. And the
25 license is because of the public protection issue. And

1
2 the Boards of Accountancy are there to protect the
3 public.

4 Advocates for change frequently
5 focus on two areas: interstate reciprocity and
6 fairness in CPE requirements among jurisdictions.

7 I believe that with the current
8 concept of substantial equivalency we will have these
9 problems solved within a very short period of time.
10 This can be achieved if the various jurisdictions were
11 to adopt a simple rule being advocated by the NASBA
12 Committee.

13 It states: For purposes of
14 reciprocity, an applicant having a valid unrevoked
15 license to practice as a Certified Public Accountant
16 from any jurisdiction, who has also obtained NASBA
17 verification on their compliance with the Uniform
18 Accountancy Act's CPA registration requirements, will
19 be presumed to have qualifications substantially
20 equivalent to this state's.

21 It is my belief, as well as many
22 others, that regulation of all professions is better
23 handled by State regulatory authorities. National
24 regulation may be simply recordkeeping, but in my
25 opinion the public would not be adequately protected.

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The Mississippi Board is in a better position to ferret out bad apples in Mississippi and the Nevada Board is better able to recognize a violation of professional standards in Nevada than would be a large bureaucracy looking at the interests of all jurisdictions wherever located and however constituted.

In essence, I believe our short-term objectives, reciprocity and CPE, can be solved by selling our various Boards upon the Uniform Accountancy Act, a joint effort by the AICPA and NASBA, through adoption of a substantial equivalency ruling. These can be accomplished within a matter of months.

The first CPA license was issued a hundred years ago. Let's not diminish what has taken a century to build.

It's my feeling that we should concentrate on holding ourselves out as professionals rather than how we can get around well thought-out professional rules and standards.

In short, I am opposed to the Federal government taking control of the regulation of the profession as proposed many years ago by Senator

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2 Lee Metcaff and Representative John Moss.

3

4 Also, I am almost but not quite as
5 adamantly opposed to a proposal that it would have on
6 a trade organization with AICPA sitting on a domestic
7 qualifying board.

8

9 Simply put, the AICPA's involvement
10 in the qualifying process would create a conflict of
11 interest, that AICPA's role is to represent the
12 interests of its member CPAs whereas the role of the
13 State Accountancy Boards is to protect the public.

14

15 As a member of both organizations, I
16 respect those roles and am grateful for them.

17

18 Thank you.

19

20 CHAIRMAN COHEN: Thank you, Tommy.

21

22 (Applause.)

23

24 CHAIRMAN COHEN: The next speaker
25 is Jerry Esselstein, currently the Chief Operating
26 Officer and Treasurer and Board Member of Berwanger,
27 Overmyer Associates in Ohio, incoming Member of the
28 AICPA Board for next year.

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30 He has served as a member of the
31 Accountancy Board of Ohio and has been active in the
32 Ohio Society of CPAs.

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34 Jerry.

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MR. JERRY ESSELSTEIN: Thank you.

Does anyone here realize how many five-minute speeches the eighth speaker has to write in order to add anything to this?

That was supposed to be funnier than the reaction. I can't see you. I can only hear you.

(Laughter.)

MR. JERRY ESSELSTEIN: So -- you're smiling. You're smiling.

I would like to put a little different perspective on the issue that we have here and it's one that I'm going to use a lot of the work that we've done in Ohio to illustrate my point.

My comments, first, on substantial equivalency is that I believe there is consensus that we need that mobility. I think it's logical based on everything we have heard today.

And I trust that the representatives of NASBA and the AICPA will be able to work out those mechanics.

I would like to focus the rest of my minutes though on something I think is much more serious, and that is the issue and the proposal that would bring two tiers or what I would call a two-

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class system to the CPA profession.

Normally, when the AICPA speaks or one of their committees, I've learned over the years to do my homework before you criticize, that most of the publications and most of the progress that we've made and everything that we've done were pretty well grounded in thought and there is continuity in what we are doing.

I don't see continuity in what is coming out as a two-tier system.

Coming onto the Board and finishing five years on Council -- and, by the way, I also serve upon the Accountancy Board for the State of Ohio, I'm starting my third of a seven-term jail term there -- the issue is what is a CPA.

We can look at the demographics. We can look at all the changes over the last twenty years. We've heard statistics on what percent are non-attest function services. We've listened to probably the best presentation in the history of the AICPA on assurance services.

We look at all of those things and what is the CPA.

A CPA is first and foremost a

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2 professional. We spent and have spent way too many
3 years defining a CPA as a function; they do auditing,
4 they do tax.

5

6 I've lived twenty-four years that
7 people asked me about tax returns and being an
8 auditor. And only in the last several with the birth
9 of information technology and with being a chief
10 analytical officer have people begun to ask me about
11 other things that CPAs do.

12

13 We are the left brains in the
14 business world. We are working on the right brain side
15 of what we want to do.

16

17 We bring a tremendous amount of
18 creativity and at the same time a tremendous amount of
19 analytical ability to the business world.

20

21 The CPA, and I use that designation
22 with pride because it stands for, first and foremost,
23 professionalism, integrity, competence.

24

25 In Ohio -- and what I'm offering to
the Committee is for them to totally relook and
rethink the two-tier system.

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In Ohio just this month what's
become law in a collaborative effort between the Ohio
Society of CPAs and the Accountancy Board is a total

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rewrite of their permit structure and their CPE requirement.

Today in the State of Ohio all CPAs must have a hundred and twenty hours of Continuing Professional Education or they must qualify their designation with the term "inactive." This is being phased in beginning October 1, 1996 through the end of 1998.

It is being met with thank you's from members in industry for what we've done is we've done away with the arbitrary fifty/fifty allocation of auditing and tax, even though an individual like myself might be buried in information technology, human resources or whatever.

We've looked at the profession through the eyes of the customer, the bankers, in the public interest, any reader of information, we've looked at management accounting.

But we've come back and we've said that an individual using the CPA designation has told the reader in holding out that they're a CPA that they can expect a level of character and competency and professionalism with this data, whether it's financial, whether it's customer-oriented, whatever

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the information base is in business.

We saw a graph today that said that basically information has -- accounting information is ten percent of all the information used by decisionmakers. Yet we've been challenged today to be in charge of a hundred percent of that information.

I believe that CPA designation stands for that professionalism.

It does not stand for attest or tax.

And in using that designation and through the marketing program on which we are spending millions of dollars on, we have said that the CPA, don't underestimate the value.

Well, that value becomes incredible to us and we want everyone to know in using that designation that we are committed to life-long learning.

In this proposal we are doing away with CPE for over two-thirds of the functions we do because it will make us more competitive.

That is totally asinine. What makes us more competitive is a marketing advantage. Any marketing expert will tell you a competitive advantage is what you need.

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If we are marketing that CPA designation and we are telling the public that we stand at a level where they can expect a higher performance, whether we are selling used cars, whether we are a human resources director, whether we are in automation, they are going to say I want that individual, man or woman, that has the CPA designation doing the work because they are committed to a dynamic profession designation, not the trophy on the wall.

I regret my time is up. I'm convinced that I could spend five hours on this.

I'm not happy with the second proposal of the Committee. I guess you've gathered that from my remarks.

And the good news is that there is only one more speaker.

Thank you.

CHAIRMAN COHEN: Thank you, Jerry.

(Applause.)

CHAIRMAN COHEN: Last, but not least, our next speaker is Gila Bronner, currently an accountant and national consultant specializing in providing organization and operations management, information systems and consulting systems for state

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and local governments and federal agencies.

Prior to forming her own company in 1987, Gila was a Manager for Governmental Consulting at KPMG Peat Marwick and she is an incoming member of Council.

Gila.

MS. GILA BRONNER: Thank you, Ron.

We're over here just for a change in pace.

Good afternoon.

As Ron indicated, my name is Gila Bronner. I am the principal of a small accounting and consulting firm here in Chicago.

So seeing that you are on my home turf, I would like to welcome all of you here and trust that you are having an enjoyable Council meeting.

I am a new Council Member and also Chairman of the Institute's Key Person Coordinating Committee.

I would like to thank you, Ron, for the opportunity to address Council today on the very important issues being studied by the Special Committee on Regulation and Structure.

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As we have heard this afternoon and over the last few days, the CPA profession is undergoing a C change with respect to its role in the global marketplace.

There are many divergent views as to what constitutes appropriate services for CPAs to perform and how those services should be delivered and regulated.

There is no question that during my fifteen years of practice - both in Big Six and small firm environments - I have seen significant changes in the nature and scope of public accounting services being offered, and even more dramatic changes in the way CPAs compete and market their services.

There is no question that the marketplace has become more competitive making it increasingly more challenging for CPAs to maintain market share as well as our high standards of professional practice and ethics.

With the increased level of technology, making it easier for all of us to service clients across city, state and national borders, it is not only timely, but critical for the Institute and the profession as a whole to ensure that its

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2 membership, young and old, has every opportunity to
3 compete fairly in our dynamic workplace.

4 To this end I heartily support and
5 endorse the conclusions of the Special Committee.
6 Specifically, I concur with the concept of
7 implementing substantial equivalency so that a CPA can
8 be recognized and practice as such anywhere in the
9 country.

10 The portability of the CPA
11 designation will greatly aid our efforts in being able
12 to compete in the national and global workplace and I
13 believe to attract more students and others to the
14 profession.

15 I also agree with the Committee
16 regarding establishing a two-tier approach to CPA
17 regulation. Limiting more strict licensure
18 requirements to those CPAs who perform attest
19 services, while still allowing those individuals
20 passing the exam to call themselves CPA and to operate
21 under a somewhat less stringent set of regulations, I
22 believe will foster an environment in which we can
23 continue to attract and retain the best and the
24 brightest in the accounting profession.

25 I believe that allowing the CPA

1
2 designation to be associated with persons providing,
3 quote, other services, will give them a leg up on the
4 non-CPA competition in those practice areas.

5 While there remains many
6 implementing issues requiring analysis and resolution,
7 I believe the initial conclusions of the Special
8 Committee provide a sound basis for improving the
9 current regulatory system of the profession.

10 Once again, I applaud the hard work
11 and conclusions of the Special Committee and I urge my
12 colleagues to accept and endorse its concepts for
13 change.

14 Thank you.

15 (Applause.)

16 CHAIRMAN COHEN: Thank you, Gila.

17 I want to thank all of the speakers
18 for their thoughts. Obviously this is not, as we have
19 been accused many times before of being, it's not a
20 railroad job.

21 You've heard the Committee's
22 recommendations. Those certainly had the support of
23 our Board of Directors going forward. Obviously, there
24 is a lot of implementation issues that are not
25 mentioned, a lot of details not mentioned. You've

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2 heard the views, the contrary views, supporting views
3 of a number of speakers.

4 And what we would like to do is have
5 you discuss these at your table.

6 There is a discussion leader and
7 facilitator at each table as well as a recorder to
8 capture the points and conclusions that you reach in
9 the discussions.

10 And you will be able to give us some
11 specific feedback through the voting pads after you
12 conclude your discussion.

13 We are running, as I said, a little
14 bit late. I think we can get all of this done and
15 perhaps without going more than fifteen minutes over
16 the scheduled agenda time and postpone the open forum
17 until tomorrow.

18 What we would like to do is to take
19 about thirty minutes or thirty-two minutes, let's say,
20 for the four questions that you have before you,
21 quickly run over them, and please try to cover all
22 four because they are all pertinent to the polling
23 that we will be doing.

24 The first question: What is your
25 reaction to the concept of substantial equivalency to

1
2 ease reciprocity and mobility for CPAs across State
3 lines? Do you agree that if a State is deemed
4 substantially equivalent to the certification criteria
5 in the AICPA/NASBA Uniform Accountancy Act that a CPA
6 from that State should be granted automatic
7 reciprocity with other States? Further, should such
8 CPAs have automatic practice rights in other States
9 for temporary in person practice and/or through the
10 use of technology? Do you support such a concept? If
11 not, why?

12 Second question: The Special
13 Committee feels that due to the changing nature of the
14 marketplace for CPA services, and the need for CPAs to
15 be able to compete with other service providers who
16 are not regulated, that the current system of
17 regulation should be modified for the future. The
18 Special Committee envisions a two-tier system of
19 regulation for CPAs that will allow for a
20 differentiation in regulation (different rules for
21 certificate holders versus licensees) - but rules
22 incidentally for both of them - based on the services
23 that they provide to the public. Do you agree with
24 this concept? If not, why do you not support it?

25 The third question: Following on the

1
2 previous question, the Special Committee is suggesting
3 that a license only be required for CPA certificate
4 holders who perform attest services - defined as
5 audits, reviews and compilations. Do you support this
6 idea? If not, for what services would you require a
7 CPA license?

8 And, finally, the concepts supported
9 by the Special Committee require implementation at the
10 State level and thus State Society support is
11 critical. What barriers or obstacles to implementation
12 by the States do you foresee and what can we at AICPA
13 do to overcome them?

14 Please take about eight minutes per
15 question.

16 And as we have said before, try and
17 approach these with an open mind looking at them with
18 out-of-the-box thinking, and certainly, based on what
19 we've heard already today, looking forward to the
20 future.

21 Incidentally, Bob Mednick, Barry,
22 Stu Kessler and I and John Sharbaugh will be floating
23 around, and Curt Mingle -- Curt is sitting, not
24 floating -- to help you if you have any questions.
25 There is a question mark on the top of your table.

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Just raise it and we will try to help you out.

(Roundtable discussion ensued at the Council meeting.)

CHAIRMAN COHEN: Okay.

Let's conclude our discussions so we can get to the polling, please.

I apologize for not having more time and also for the setup here. We attempted to get breakout rooms so that we would have a little easier time to hear one another across the table.

Unfortunately, the hotel was unable to accommodate us.

What we would like to do now is to present to you a series of questions relating to these issues and use the voting pads in front of you for responses as we did last Spring.

After we get done with the polling we will flash the results very quickly to you. And then tomorrow morning we will have hard copies of the results of the polling questions.

And I would ask that all of the recorders at each of the tables turn in their information results of the discussions at the tables at the registration desk outside as they leave the room.

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2 Again, I know that we could have
3 gone a lot longer with the discussions, but as I
4 toured the room it seemed to me that each of the
5 tables seemed to have a considerable amount of
6 unanimity and also among the tables that I visited I
7 didn't sense anybody having any differing opinions.

8 (Laughter.)

9 CHAIRMAN COHEN: Nobody ever
10 accused of me of hearing what I want to hear.

11 (Laughter.)

12 (Electronic polling was conducted at
13 the Council meeting.)

14 CHAIRMAN COHEN: We will start at
15 8:45 tomorrow morning with a panel discussion on this
16 issue and you will have the opportunity to ask
17 questions or make comments at that time.

18 Thank you.

19 (Which were all the proceedings at
20 the Fourth Session of Council which concluded at 5:50
21 o'clock p.m.)

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23 * * *

F I F T H S E S S I O N

Saturday, October 19, 1996

8:50 a.m.

CHAIRMAN COHEN: Good morning,
everyone.

I trust everybody had a chance to
enjoy this great city last night.

I know we had a little bit of a
light agenda yesterday and we are trying to beef it up
this morning.

The first item on our agenda this
morning, we have a panel to conclude our consideration
of the Report of the Special Committee on Regulation
and Structure of the Profession.

We certainly encourage questions,
discussion from the floor, with regard to the
recommendations of the Committee.

And as I indicated yesterday, we are
not intending to take a vote on this. Our purpose was
to gain input for the Committee to continue its
deliberations, to continue its work with NASBA, to
move forward with a final report. Hopefully it would
come to Council during the Regional Council meetings
next March or the Spring Council next May.

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What I would like to do first this morning is to review with you very briefly the results of the polling yesterday.

We haven't had a chance really to review the reports of the reporters at the discussion tables. That certainly will be something that the Committee will be doing in the near future.

However, with regard to the polling questions yesterday, let me just very quickly run through the results.

The first question was: "Do you agree that in today's business climate and with today's technology that there should be an easier process to enable us to practice across state lines and obtain reciprocity in moving to another state?"

And it was virtually unanimous either in moderately or strongly agree. In fact, it was unanimous in those two categories. Of the 289 votes that we have, eighty-nine percent strongly agreed with that and ten percent moderately agreed.

So I think that we can safely say that there is a consensus there.

The second question was: "Do you support the Special Committee's concept of substantial

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equivalency as a means of reciprocity and mobility for CPAs across state lines?"

And that concept was to grant automatic reciprocity and practice rights to CPAs from states that are considered to be substantially equivalent to certification criteria that are set by the AICPA and NASBA in the UAA.

And, again ninety-four percent of you either moderately or strongly supported that concept. Seventy-one percent strongly supported it.

In response to the question: "Do you agree that the marketplace for CPA services is changing and the demand for traditional services is shrinking in relationship to other services that CPAs provide?"

Ninety-six percent of you agreed with that; sixty-seven percent strongly agreed and twenty-nine percent moderately agreed.

So on all three of those questions obviously there is a very strong consensus.

The next question was: "Do you agree that the current state regulatory system places CPAs at a competitive disadvantage to other service providers who provide the same services but are not

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licensed or regulated?"

And the results weren't quite as clear there. Forty-eight percent either moderately or strongly agreed with that and thirty-eight percent either moderately or strongly disagreed with that statement. Fourteen percent weren't sure.

The next question was: "Do you support the Special Committee's concept of refocused regulation, that is, that the license only be required for CPA certificate holders who perform services in which there is a greater public interest or the attest services, and then have different regulations apply to CPA certificate holders versus CPA licensees?"

And, again, the results were somewhat mixed. Thirty-four percent agreed with that statement either strongly or moderately, fifty-seven percent disagreed either moderately or strongly. Forty-one percent strongly disagreed.

"What specific services do you believe should require licensing in addition to certification and heightened regulation?"

Thirty-four percent traditional attest services, fourteen percent attest and tax compliance services, and forty-seven percent all

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services that CPAs provide to the public.

"Under the refocused regulatory system proposed by the Special Committee no experience would be required to obtain a CPA certificate. There would be an experience requirement for the CPA license. Do you agree with this?"

Again, kind of a mixed response. Forty-three percent agreed; fifty percent disagreed.

And, finally, "Any new regulatory proposal will require implementation at the state level. What level of support do you think the AICPA will receive from state societies?"

And the response there was forty-eight percent felt that the State Societies would support it; seventeen percent said they probably would not; and thirty-five percent were not sure. And I would assume that that response hinged on what the final recommendations would be.

So those are the results that we got yesterday.

And what we would like to do this morning -- as I said, we want questions from the floor. But I thought to kind of focus where the Committee was coming from and perhaps clarify some of

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the report provisions we heard yesterday, I wanted to ask Barry to kind of give us his views on what we were trying to accomplish long-term with these recommendations.

Barry.

PRESIDENT MELANCON: Thank you, Ron.

I appreciate the opportunity to visit with you on this issue.

I think the results are pretty clear that we all believe that the mobility issue should be addressed in a fashion that produces the ability for firms to practice, CPAs to practice electronically across state lines.

Throughout these discussions, as I anticipated in all of these meetings, and I think the people to my right and others who have been in these committees will agree, I have consistently said that if all we do is solve the reciprocity, so-called reciprocity issue, that that's probably not going far enough, that we really need to deal with the vision of the profession, where the profession is going, the factors in the marketplace that are driving the profession so we assure that we have a regulatory structure that allows for a healthy profession.

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2 And the concerns that I have
3 somewhat relate to what is called the American Express
4 phenomenon. And I would just implore you to not think
5 of what is happening with American Express, the
6 litigation that Buddy talked about in Florida and
7 things of that nature, and certainly the litigation
8 that occurred in Texas, as solely an American Express
9 issue. It is not.

10 That is the biggest disservice that
11 we can do to this profession is to think that we have
12 a singular American Express phenomenon going on out
13 there.

14 The fact of the matter is that
15 American Express has some very detailed strategic
16 objectives to acquire larger firms, number one, to
17 cause some cataclysmic events in the regulatory
18 structure -- they may or may not be successful -- and
19 on top of that it is not solely American Express.

20 We know of at least one other major
21 Fortune 100 company that has as its strategic
22 initiative to follow in American Express' footsteps
23 probably with a little bit of difference after
24 American Express has, I guess, invested most of the
25 R&D dollars.

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And certainly if you look at financial institutions, there is an expansion of existing financial institutions into the traditional services. There are banks today, for instance, who do not offer checking accounts to small businesses. Instead they offer downloadable files to tie into general ledgers to generate financial statements as a regular course of business today.

And those will continue to get better and better and better as expert systems allow those types of programs to also address what we would normally describe as journal entries that have to be made at the end of the month or whatever to have a financial statement that is reasonable.

Now, if we take all of those issues, what people are beginning to say - small firms, many small firms have called me, several small firms have called me and talked about this issue, and I know larger firms are looking at it as well, is what I call the bifurcation of the firm.

And this is where I think the Committee was trying to focus on, this two-tier issue that we sometimes refer to it. And I'm not sure that we have a clear understanding of what we mean. It

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really is a differential regulation.

What American Express has effectively done -- and I will admit to you that they did not do a good job of addressing this point in the opportunity that we gave them, and that was unfortunate -- but what American Express has effectively done is that when they buy small firms, they pull off everything that the small firm does except the attest function and put it in American Express Tax and Business Services.

And they leave a shell entity, a shell partnership, CLPC, LLP, whatever it was, to still exist, no employees, no nothing, and that shell entity continues to exist and continues to tell to the world that they are a CPA firm.

And when there is an attest engagement, this shell entity rents employees back from American Express Business and Tax office to provide that attest function. And the shell entity is owned not by American Express but by the former owners, the continuing owners of the firm.

Well, other firms today, other firms who have no intention whatsoever to sell out to American Express or others, are saying, well, I want

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to do that. What I'm going to do is bifurcate my firm.
I'm going to have two entities.

I'm going to have Barry Melancon,
CPA and I'm going to have XYZ Financial Services, Inc.
And I'm going to move all of my tax consulting, I'm
going to move my business consulting, I'm going to
move my technology consulting into this other entity.
And it's going to be a general corporation. I'm going
to have less regulation. I'm going to have less
liability risk because of the way I can construct the
corporation, et cetera.

Now, I believe that that is an
absolute -- and I missed a point here, is that the
position that most State Boards have taken in that
phenomenon as it begins to unfold is that this other
entity over here and the people in this other entity,
they do not want people to be able to say that they
are CPAs doing that.

And so what we end up with is the
potential where the only place under a regulatory
scheme that we can tell to the public that we are CPAs
is in this let's call it shell entity that is solely
doing attest functions.

And you heard the Special Committee

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2 on Assurance Services and Bob Elliott's presentation
3 yesterday, we clearly view the future of the
4 profession in a much broader fashion of services, the
5 information type services that he so expertly
6 described to you.

7

8 So the problem we have is if the
9 only place that the CPA can be known as a CPA is in
10 this limited little entity, than what happens to the
11 image and reputation of the CPA?

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13 And I think some of the people who
14 talked yesterday also talked about, well, if you do
15 this, it will affect the image of the CPA.

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17 And they made some legitimate points
18 and we accept that. And clearly your feedback in the
19 polling results indicate your concern towards some of
20 those things and also from the notes that we received
21 from the breakouts.

22

23 But, conversely, there is an equal
24 and, in some people's minds, a greater concern about
25 the CPA title and profession being bucketed into this
26 little narrow perspective and that's the only place
27 that we could say to the public that we are CPAs.

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29 And I would offer to you that, as it
30 relates to a small firm in a small community, it

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2 doesn't have an immediate negative effect because in a
3 small community the CPA who does that - this is where
4 the CPA would do that, bifurcate their firms - the
5 community will still know they're CPAs.

6 But that is a one generation
7 phenomenon because after that one generation, the
8 people who are employed by this other entity that is
9 doing all of these other services that the AICPA will
10 be bringing forth and that Bob talked about yesterday
11 and a whole host of other services, even traditional
12 such as tax services, there will be no incentive
13 whatsoever for future employees to think of themselves
14 as becoming CPAs in that type of an environment
15 because the growth, the excitement, if you will, the
16 practice will be in those areas in which the very
17 nature of regulation will cause us to not allow them
18 to say they are CPAs.

19 So the intent of the Committee was
20 to draw a very broad umbrella that says, yes, we are
21 the CPA profession, and, yes, the CPA profession is
22 and will be many, many, many, many different things.
23 Part of those things is the attest function.

24 And the attest function has a higher
25 public interest. It is something that we have a

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franchise on.

And when you get a franchise, there is by definition a quid pro quo. The quid pro quo is that we subject ourselves to additional regulation which we have historically done and no one is proposing that we don't.

And so that's the concept, in that we want to draw a very broad umbrella, but we want the profession to be able to be associated with all of these variety of services.

Now, I will admit to you, and I think your discussion was very on point, that this is a very complicated and it's very futuristic and how do we position it. And there are a thousand -- or if there are five hundred people in this room, probably five hundred different opinions as to what I just described to you as to how you might go about solving that particular problem.

I would only encourage you as members of Council that it is a problem that has to be solved. It is not a problem we can allow to just maybe happen in courts or to be handed to us in some fashion where we have not exerted leadership and one day wake up and be in the point that that is the only place

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2 that we can say we are CPAs. Because in the long run
3 the profession will have a significant negative value
4 because of that.

5 We have to be a broader profession
6 because that is where technology and the marketplace
7 are bringing us.

8 And so just to reiterate, these
9 other services -- and the Committee's proposal --
10 would not be not regulated, but they would be
11 different regulation.

12 A practitioner saying they were a
13 CPA, saying that they were doing technology
14 consulting, would still be subject to, under our
15 vernacular, the code of conduct. They would be
16 required to be competent in the taking of engagements.
17 The State Board would have the ability if the person
18 committed an act discreditable as it relates to that
19 particular engagement or was deemed to be non-
20 competent to take on that, therefore, brought down the
21 public trust as it related to providing that ancillary
22 service, they would still have the ability to pull
23 that certificate.

24 But the key is, is we want -- there
25 are a whole lot more good CPAs that are going to be

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doing a great job in doing all these services, and we want our, I think the Committee wants the ability for people to be able to be associated with the CPA title in doing those so that we don't become a narrow bucketed image that, in effect, reinforces the thing, the public image of the profession as bean counters and things of that nature that we are trying to displace with our image campaign. We are trying to say it's broader.

CHAIRMAN COHEN: Okay. Thank you, Barry.

I need to apologize. I was remiss in not introducing our panel, most of whom or all of them probably need no introduction. But I'll do it anyway.

All the members of the panel, incidentally, not only serve on the Special Committee on Regulation and Structure, but also on the Joint Committee of the AICPA and NASBA dealing with this issue.

And, of course, you heard from Barry Melancon, our President.

Next to Barry is Don Weldon, who is the Executive Director of the Texas Society and has just completed his term as President of CPA/SEA.

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Kathy Eddy, a member of the Board of Directors, from West Virginia.

Bob Mednick, who you all know, is from Illinois, the next -- well, he's the Vice Chair of the Board.

(Laughter.)

CHAIRMAN COHEN: And Curt Mingle, of course, you heard yesterday from Wisconsin who is the Chairman of the Regulation and Structure Committee.

Bob, it was obvious to me -- I don't know if it was to everybody else -- that the whole concept of two tier, there are a lot of different opinions about what two tier is, what it will do, whether it works or doesn't work, it will destroy the profession or it won't.

Maybe we need a little bit of clarification, Bob, at least what the Committee was talking about when it refers to refocused regulation or a two-tier structure.

VICE CHAIR BOB MEDNICK: Well, first of all, I think Barry did a pretty good job of describing what the Committee had in mind.

But let me be the first to

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acknowledge that the way we are regulated in this country and everybody else is because the nature of the state rights system is extremely complex.

This is a sensitive issue and what we propose to you, which is new to many people, adds further complexity.

So the fact that it is not easy to get your hands around all of the facets of this is not a surprise. And, in fact, the people who had problems and had difficulties -- rather didn't have problems in understanding it, they probably didn't devote much time or energy to it.

So it is complex and it's not surprising that it would be hard to grasp.

I want to add a little bit to what Barry said. I frankly believe that, as important as the portability issue is -- and, of course, I'm kind of known as the guy who promoted it when I wrote an article saying we ought to have a national CPA certificate -- as important as it is and as pleased as I am that we are getting near reaching agreement on a methodology to solve that problem, I, like Barry, believe we haven't gone far enough unless we deal with the second piece.

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2 And if I was to be honest with you
3 and honest with myself, I would tell you that I
4 personally believe the second piece is even more
5 important than the first.

6 The first is a serious problem, but
7 it's an administrative problem. If we bring in enough
8 people and we pay enough attention to detail, you can
9 fill out the forms, and on top of it very few State
10 Boards are enforcing it anyway.

11 So, I mean -- and I think that is
12 the worst of all worlds. To create rules or standards
13 that you are not going to enforce to me is worse than
14 doing nothing at all.

15 But the second piece of it really
16 deals with where we want to be when we grow up so-to-
17 speak. It's a question of redefining ourselves,
18 creating a new niche for ourselves, taking advantage
19 of the skills and our reputation for integrity to
20 provide a much broader range of information services.

21 And Bob Elliott's report
22 demonstrated it in -- I have never seen a group as
23 responsive to a presenter as you were. So I am,
24 frankly, very energized by that.

25 But the reality is what we are

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saying, and that's what Bob Elliott's slide said, is that it requires a shift, almost a mindset shift, to recognize that we are now playing in the marketplace.

We are no longer dealing in services that are required by law or regulation. We are no longer dealing in areas where we don't have serious competitors. And, in fact, we are now focusing on providing value rather than complying with someone else's requirements.

That's a new ballpark. I find it extremely exciting.

I mean what do you want to do in life? You want to do something that people view as of value.

I mean I saw that in this group. Now, how does regulation become a burden?

I mean I think there was a lot of confusion. For instance, someone said that -- first, let me step back.

A lot of people equated two-tier to two-class and there is a concern that the certificate only is second class.

On top of that, this is how I get

2 there. Someone made the point that to regulate purely
3 on the basis of a code of conduct is no regulation at
4 all.

5 I would take just the opposite
6 effect. I'm very proud of our code of conduct. We will
7 be competing with lots of other professionals and
8 businesses in a lot of these areas that don't have any
9 code of conduct as we have and the seriousness of
10 purpose in enforcing it.

11 As a matter of fact, that's all we
12 have today. I mean we are saying we ought to be
13 regulated in all our services. If we should be
14 regulated in all of our services, then we should be
15 regulated in all of our services.

16 Why do we only peer review the audit
17 practice?

18 I will tell you at Arthur Andersen
19 we perform exactly as deep and as sophisticated a peer
20 review of our tax services.

21 We do that for self-regulatory
22 purposes.

23 But we don't do that.

24 And I would just illustrate -- to
25 take a few more minutes, Ron -- by this exciting

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practice that Barry has moved us towards by entering into this, I think, an extremely important strategic alliance with Microsoft to do technology consulting.

Well, the fact of the matter is, there isn't any technology consulting on the CPA exam. We don't peer review technology consulting, and yet we are saying that it ought to be a regulated service.

If it ought to be regulated, it ought to be regulated.

The problem we have, which is no one's intention in this room, is to leave ourselves open to the court in Florida, to Governor Wilson, even though he's politically motivated, to American Express charges we're not regulating at all, we are just protecting ourselves and we are too proud to do that kind of thing.

My position is we got to focus on the marketplace, that regulating by the code of conduct is something we should be proud of, that if you really only need deep regulation and better regulation, because focused regulation is better regulation, when you look at third-party services, the traditional attest service, and it isn't a second class at all. It brings -- it creates an entirely

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2 different image to the profession. It is all inclusive
3 which is what Barry is asking for, and it is confusing
4 as can be.

5 So I can understand all of that
6 confusion. But it's the only way we know of unless we
7 have two different bodies, which is where I started
8 from, and I stand to be corrected.

9 I am in today's environment very
10 willing to have the same body issue both certificates,
11 but it is not quite so clear as when you have two
12 different bodies issuing.

13 That's all that it is. It's nothing
14 more or less. But it is a change in our mindsets and
15 that's the way I look at it.

16 And we are in the marketplace. There
17 is nothing unprofessional about that. As a matter of
18 fact, I argue that providing services that people buy
19 because they are valuable to them is in the highest
20 public interest.

21 So I'll stop at that. I don't know
22 if I've clarified very much. But I don't think you
23 should look at this as two class.

24 CHAIRMAN COHEN: Again, we want to
25 engage you in any questions, concerns, comments that

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you have.

We have three microphones here. Just feel free to approach them and be recognized.

Curt, you wanted to add something?

MR. MINGLE: Yes, just a couple of quick comments, Ron.

Interesting. I listened to the previous comments, both Barry's and Bob's. And ninety-six percent of the people in the room agreed with the fact that the marketplace is changing from traditional services to something else.

And what was interesting to me was they all recognized -- everyone seems to recognize this change, but there is the typical, and I share your reluctance, if you will, of making changes in an existing system.

And that's where, you know, the refocused regulation thing, Bob, I'm not sure we have a clear -- we have a little bit of an education problem here. But I heard the same thing at table number eight. We were talking about, well, there are going to be two classes and the certificate holders are a lower class.

That is not the intent of what we

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are trying to do at all.

First of all, I guess I should have said to you thanks for all the input. This was very brilliant input and pointed out some areas where we obviously have -- the Special Committee has not yet been able to get people to understand. Of course, their modus is we are going to try to give some possibility for Ron.

CHAIRMAN COHEN: You can see how far already we've gotten away from the CPA image.

MR. MINGLE: One last thing.

I really thought the sixteen percent across the board tax cut would put this over the top.

(Laughter.)

MR. MINGLE: But apparently that political strategy continues to be ineffective this year.

(Laughter.)

MR. MINGLE: But, no. Seriously, what we are talking about here, if you go back to the comments that Barry made a few minutes ago, we are talking about leadership. The leadership, that is everyone in this room. Everyone in this room. No one likes change maybe with the exception of a wet baby.

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But other than that --

(Laughter.)

MR. MINGLE: -- the world is changing. We don't like it. I don't like it.

The fact of the matter is we are in a market driven environment and we have to adjust a system that has served us that just does not fit anymore.

Remember Edie's comments about the airplane. We have to make sure -- you know, some of us don't want to fly the airplane into the next century.

Frankly, some of us don't want to go to the airport.

(Laughter.)

MR. MINGLE: I mean the fact is the airplane is going there, guys. We have to adjust to this even though there are individual reasons and all that sort of thing.

But as Bob Mednick said, part of the reason, and I understand this absolutely clearly, is that this is very complex and, therefore, somewhat confusing.

And what we have in place now, even though you don't like it and you've said so, and

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understand the marketplace is changing, there is a reluctance because at least you understand it.

And I understand the problem. And I'll shut up, Ron.

CHAIRMAN COHEN: And I want to assure you that none of this is scripted.

In fact, we've never seen each other before this morning.

(Laughter.)

CHAIRMAN COHEN: Kathy wanted to add something. Go ahead, Kathy.

MS. KATHY EDDY: Well, first of all (a short inaudible portion.)

VOICES: Louder.

MS. KATHY EDDY: One of the things that we haven't talked about yet this morning are the members in industry, those CPAs who we also want to keep in this profession.

The Committee seriously addressed the issue of those who are in industry, education and government, and whether or not they had any incentive whatsoever to become CPAs or stay CPAs.

And so the two-tier system did provide us with a mechanism to allow those people to

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be CPAs, to call themselves CPAs. And it's not just those that are currently CPAs, but those members or those young adults that are in college as to whether or not they are going to enter this profession and whether or not they have any significant reason to be Certified Public Accountants.

And so the two-tier system did provide us with a mechanism to allow that to happen.

CHAIRMAN COHEN: Okay.

Nita.

It is, Nita, isn't it?

COUNCIL MEMBER NITA CLYDE: Yes, it is Nita.

I'm Nita Clyde, a member of Council from Texas.

And I would like to speak on behalf of the vast majority of CPAs. I have been a regulated CPA. I'm in public practice in Texas where all CPAs are regulated regardless of what they do.

However, in an ideal world every CPA would not only pass the CPA exam but also be a member of the American Institute and, therefore, subject to its code of conduct.

In the world in which we live, less

2 than, oh, I guess, sixty percent of CPAs belong to the
3 American Institute.

4 And under the proposal that the
5 Committee has brought forth those CPAs would not be
6 subject to the regulation of the AICPA nor would they
7 be subject to a code of professional conduct as
8 espoused by the states.

9 I am greatly concerned that we raise
10 -- instead of raising all CPAs regardless of what they
11 do to the highest level, that we reduce those CPAs
12 that provide the highest level of our service, the
13 attest assurance service, to the lowest common
14 denominator.

15 What I would suggest is that we
16 consider, as was suggested yesterday, if a CPA wishes
17 to provide assurance services in, for example, an
18 unregulated area, that is, the ElderCare service, that
19 there is a certification related to that.

20 Why do we not take all CPAs, require
21 that all CPAs demonstrate their competence through
22 Continuing Professional Education, and that they
23 adhere -- we could work at this at the state level --
24 that all CPAs are expected to be competent, that they
25 are expected to maintain confidentiality, that they

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are expected to maintain the highest standards in advertising, that they don't claim to be what they are not, nor do what they can't deliver, and that we take those who provide assurance services and ask that they provide an additional measure of assurance themselves and call them a CPA CAP, Certified Assurance Provider, and in that way we all have the same level of regulation at least at the initial state.

(Applause.)

CHAIRMAN COHEN: Thank you, Nita.
Bob.

VICE CHAIR BOB MEDNICK: I agree with substantially everything you've said. Maybe that's why there is a significant need for clarification.

When we say a code of conduct -- and it's true that we have one and we are proud of ours, we don't mean leaving it in the AICPA. We mean, in fact, transforming that code of conduct into the Model Act. As a matter of fact, it's in there now.

So in answer to your first question, the code we are talking about would be part of the legal State law and, therefore, all CPAs would be subject to the same code and subject to whatever

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2 disciplinary action should be taken including the
3 removal of their certificate if, in fact, they didn't
4 comply with that code.

5 So I couldn't agree more.

6 I happen to be a big supporter of
7 specialist accreditations. And, as a matter of fact, I
8 think there should be -- and I'm not promoting it now
9 because we are not there with ElderCare or anything
10 else -- but if and when that service or any other new
11 assurance service reaches a level where, in fact, the
12 public and our members would benefit from an
13 additional certification, I would be the first one in
14 the world to support that.

15 So I guess I don't disagree with
16 you. But my view is all of that fits into a process
17 where we still recognize that a higher level of
18 regulation, including peer review and including CPA
19 ownership rules and so forth and so on, need only
20 apply where, in fact, we have a statutory monopoly.

21 I'd say one more thing which I think
22 is very important.

23 We are saying that there ought to be
24 regulation. The irony -- and let's just take Bill
25 Gates' service again. Technology consulting is nothing

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new. The public is not demanding the regulation of technology. So there are a lot of people out there and it's a two-party service and it's a typical marketplace transaction.

And all the other protections of the law and the court system apply. But the public is not asking for regulation of that service.

I mean if they were, they would be regulating the service now.

CHAIRMAN COHEN: I think there is another misconception. I heard it a couple of times yesterday. And, Nita, you mentioned it too.

There was no discussion at all of doing away with the CPE requirement for the credentialing of CPAs, certification of CPAs.

That is something that was in the details that we did not mention. But we did not say that there would not be any -- that there would be no CPE requirement to get your CPA certificate or to keep your CPA certificate.

Yes, that is in the details. We are trying to keep this at a conceptual level.

Barry, did you --

PRESIDENT MELANCON: I just wanted

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2 to comment on the code of conduct point that you made.
3 Bob hit most of the points.

4 They are primarily to model the
5 State regulations as it relates to the code of
6 conduct. Either State Board's rules or law points to
7 the AICPA code or there is a code contained either in
8 the law or the rules of the State Board.

9 The concept would be Institute
10 membership or not will be totally irrelevant under
11 this approach in that the code of conduct would apply
12 to any certificate holder.

13 And if, for instance, in Texas,
14 Nita, if your percentages are right, if there are
15 forty percent in Texas that are not members of the
16 Institute, they would still be subject in this broad
17 array of services to all of the rules that would be in
18 effect which would include the fact that they couldn't
19 have false or misleading advertising and that they had
20 to be competent in order to take an engagement and
21 they couldn't be involved in acts discreditable.

22 So just to echo Bob's point, those
23 two models are there already in State law and there
24 would be nothing that we would be proposing that would
25 take away from just the certificate holder the

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applicability, if you will, of those rules.

So I would also agree with what you described as an important element.

CHAIRMAN COHEN: With all of these lights in my eyes, I almost need a hat here to keep from getting a sunburn.

But, Harvey, is that you there?

COUNCIL MEMBER HARVEY COUSTAN: I get the same kind of sunburn as you do.

CHAIRMAN COHEN: Yes.

(Laughter.)

CHAIRMAN COHEN: I wouldn't have said that, but --

(Laughter.)

COUNCIL MEMBER HARVEY COUSTAN: I'm Harvey Coustan. I'm a member of the Board.

Part of what I was going to say I think has been addressed to some extent by Bob Mednick's comment before.

At our table yesterday I saw considerable feeling among the members that were present that having a two-tier system would dilute the CPA certificate.

And I think one of the reasons that

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that feeling was prevalent in this room is that, even though Bob continually advises me that the devil is in the details, we haven't really provided enough of a definition as to what a two-tier system would look like; more specifically, what sort of criteria would be in place for just getting your CPA certificate, the Continuing Professional Education, the Code of Conduct which would apply to a certificate holder as opposed to just a member of the AICPA.

Those are things which I don't think that we've adequately described.

And I think that that's a very necessary element because I think that it really will help our understanding and help us to get to the right place.

I also want to make another observation, and that is, that there are a considerable number of people that I have talked to - and this may be anecdotal - but there have been quite a few who have pointed out to me that they don't want a lot of additional regulation.

And so there is some tension that exists there.

I think we have to define what we

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mean by regulation.

I even got a comment from a couple of people that our accreditation program would put them out of business in the particular areas in which the accreditation would become available.

They were under the opinion that if you didn't get accreditation, that you couldn't perform the service. Of course, obviously that's just not true.

So I think a good definition of what a two-tier structure and a one-tier structure would look like in terms of the types of criteria that would be in place and the type of regulation that would take place at each level is in order.

CHAIRMAN COHEN: Jerry, you said you ran out of time yesterday, so --

COUNCIL MEMBER JERRY ESSELSTEIN: I know. But there is no time limit this morning.

CHAIRMAN COHEN: No. That's right.

(Laughter.)

CHAIRMAN COHEN: Only at the discretion of the Chair.

COUNCIL MEMBER JERRY ESSELSTEIN: I'm going to leave the mike up.

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Jerry Esselstein. Hopefully later today I'll be a Board Member. But as of last night it was in doubt.

The point -- a couple of points. One thing about being a speaker yesterday, you become a magnet for some of the comments afterwards, pro and con, back and forth.

I think one of the issues that I would like to clarify is the whole issue of regulation because I think if we get the semantics down, then we will all have a better job of understanding what we need to do.

From my standpoint, the regulation side is really just setting the standard to the public. I don't particularly care whether there is a law that regulates us as much as there is a professional standard that we're effectively communicating to the public of what their expectation can be because we are a CPA.

In the issue of two-tier, any time you divide a group into two portions, the public will perceive that there are two different CPAs.

In Ohio we have tried in the last six years to say that CPA equals CPA. In our Vision

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Statement we took out all the words except for CPA equals CPA, the objective being to set for the public a standard of excellence that would not be -- that would be the highest expectation they could have.

So no matter what a CPA was doing - - forget whether it was regulated or not regulated -- no matter what a CPA was doing, the profession itself set a bar high enough or a standard high enough that they could expect that kind of performance.

I would like to read for you something that just came out in Ohio in a joint statement by the Accountancy Board of the State of Ohio and the OSCPA.

It says: CPA equals CPA. In Ohio CPA is now a dynamic professional designation signifying an ongoing and current commitment to excellence. Two CPAs working in two entirely different fields will now be viewed by the public, the clients and employers as equal professionals with their designation not tied to a particular job or function but to a standard of excellence.

That's been the mission and we've accomplished that in Ohio.

And a lot of what's going on here

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today in my opinion begins to unravel that.

And I think that, in talking to the leadership, we really still have a common objective. We are just trying mechanically to achieve it in different ways.

And I think that there is in the words of Stephen Cobey, to make this win/win, there is always a third alternative. And I think we need to explore that third alternative that still tells to the public that the CPA is a professional and that we're peers and we're equal.

And that common bond is the one thing that is going to hold the profession together. We'll never hold the profession together because of the attest function. We will not hold the profession together because of technology.

We are going to hold the profession together because we're professionals.

And the greatest thing of this AICPA marketing campaign of "Never Underestimate the Value" was the first thing I had seen in my career where we are telling people set the expectation. We need to manage the expectation of the public.

Thank you.

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(Applause.)

CHAIRMAN COHEN: Joel.

COUNCIL MEMBER JOEL ROGOFF: Thank you, Ron.

Joel Rogoff from New Jersey, Council-at-large and also a member of the State Board of Accountancy in New Jersey.

I want to address both issues.

First, with respect to the substantial equivalency, I kind of think it's a no brain argument. The Committee has done an excellent job of articulating just what the issues are and why there should be substantial equivalency with the UAA.

New Jersey, as a matter of fact, on Thursday passed a resolution where unilaterally we are going to grant reciprocity to forty-seven out of fifty-four jurisdictions based upon our analysis of the statutes of the fifty-four jurisdictions and how they compare to New Jersey. We have some pretty high standards.

So for forty-seven jurisdictions requests received from those jurisdictions will get reciprocity if they apply to New Jersey.

We don't have -- the other side of

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the coin is going to be worked out in terms of our licensing requirement to them.

However, when I get to the two-tier system, there I think it's quite divisive. I think the Committees, both Committees, have done an extensive amount of work, but I do think that it is divisive, in terms of the standards, what the meaning of excellence is with respect to the certificate.

First of all, not only are you going to be creating two tiers, but you are going to go beyond that in terms of third and fourth levels of service and license.

For the last several years many states have fought the creation of another class of license called the Accountant Practitioner which has been promulgated by various state associations of public accountants and the National Society of Public Accountants.

The State Societies, and I believe with the backing of the AICPA, have fought that statute. And that statute provided for the Accountant Practitioner with a hundred and twenty credit hours of college education, taking the National Society of Public Accountants examination, not the Uniform

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Examination, and being permitted to do compilations.

So now you've got that license possibly being out there.

In addition, the AICPA proposed that there be a level of service for assembly of reports where they are not going to an outside party, a third party. That seemed to have met with quite a bit of opposition.

I think by proposing the two-tier system, you are opening the Accountant Practitioner level of license. You're opening up what most practitioners don't want, and that is a fourth level. The third is the assembly service.

In terms of the document that was prepared, I think, even though you wanted to deal with this on a more global way rather than getting into the nitty gritty, it does not mention the fact that to continue to be holding of a certificate, that you would be required to have CPE. And, of course, CPE is not required to get the certificate initially. It just indicates that you pass the exam.

There is no mention of experience either in terms of getting the certificate.

So I think that the handout, if it's

2 going to be used to try to promote the two-tier
3 system, it does has to be expanded initially or else
4 the impression it is going to create is going to be,
5 as explained here, somewhat deficient.

6 I'm concerned also that the way it
7 is being proposed, even though it's a joint way of
8 NASBA and the AICPA, it's an opportunity to increase
9 the membership of the AICPA which I'm quite sure is
10 not the intent of the Joint Committee but it kind of
11 comes across that way.

12 At this point I'll stop.

13 PRESIDENT MELANCON: I have a
14 question for Joel on the reciprocity issue that you
15 described in New Jersey.

16 Does that mean that if a resident of
17 Ohio, say, provides a service in New Jersey, they
18 still have an application process to go through and
19 that you just automatically grant it, or you are just
20 going to point to the Ohio certificate or license,
21 whatever the case may be?

22 COUNCIL MEMBER JOEL ROGOFF: I
23 believe that we can do it administratively, that our
24 Executive Director would take a look at the
25 application, and if the appropriate certification is

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2 there, that the person is duly licensed and in good
3 standing, it would not have to come before the board.

4 CHAIRMAN COHEN: But they would
5 still apply?

6 COUNCIL MEMBER JOEL ROGOFF: They
7 would still apply.

8 PRESIDENT MELANCON: Just sort of
9 for clarity purposes, what the Committee's proposal is
10 is that there would be, as you have deemed forty-
11 seven states to be substantially equivalent, if the
12 state is deemed to be substantially equivalent, it
13 would be an automatic granting of rights and
14 privileges without having to even go through that
15 administrative process, as long as the person doesn't
16 become a resident of New Jersey in this example.

17 So I think that the Committee's
18 proposal was pretty close to what you just described
19 but maybe even one step further.

20 CHAIRMAN COHEN: Yes. I think, as
21 Curt mentioned, it's like a driver's license, or John
22 Sharbaugh mentioned.

23 Don, do you want to respond also?

24 MR. DON WELDON: Just a
25 philosophical point.

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2 Serving on this Committee has been
3 one of the most expansive things that I have done
4 recently.

5 CHAIRMAN COHEN: Expansive. He said
6 "expansive," not "expensive."

7 MR. DON WELDON: Not expensive,
8 expansive.

9 (Laughter.)

10 MR. DON WELDON: I think everyone
11 of us came to the table with a set of rules and
12 definitions in our head. I served on the Texas State
13 Board before I came into this job, and as part of my
14 job as Executive Director helped to write the law that
15 we're currently operating under today. Just so I've
16 got a lot of identity and more than a passing
17 knowledge of the law and the way it was written and so
18 forth.

19 And I brought all of my definitions
20 and all of my mindsets and everything to the table
21 along with everyone else who serves on this Mingle
22 Committee.

23 And one of the first things we did
24 was to look at the regulatory schemes of a lot of
25 international organizations, accounting organizations,

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other states.

And I think everyone of us, every person on this Committee, has allowed some of our mindsets to be stripped away by some of our -- our original beliefs.

For example, I think a lot of the people in this room, most people in this room probably believe that every state has a franchise on the attest function. Some of us were surprised to find out that a few states have -- only regulate the title of CPA and anyone can do attest work in that state.

But the reality is the marketplace only goes to CPAs in those states because that's who they trust to deliver the service.

So when you understand that -- that franchise is important in our minds, but in reality it may not be quite as necessary as we think.

There is also in my mind -- there was a mindset that this regulatory scheme had to be based in a federal or state law to give it credibility.

But when you look around the world and discover that there are lots of professional organizations that write their own rules, decide who

2 should be in the profession and who should not be in
3 it and do a very good job of regulating themselves and
4 maintain very high integrity and standards, then you
5 start wondering, well, is that really necessary.

6 I think all of us have -- we may
7 still cling to some of our old beliefs, but I think
8 we're looking at it in quite a bit different light.

9 I had a teacher once that told me
10 that meanings are in people, not in words. And that
11 was never more clear to me than yesterday when we
12 tried to discuss two-tier.

13 I think there are at least a half-
14 dozen different definitions of two-tier floating
15 around. And no matter how many times we tried to
16 explain the definition that we are using, it's very
17 hard for people to cast off the definition they have
18 in their mind, that two-tier defines who can hold out
19 as a CPA or who should not hold out, it defines
20 whether you have mandatory education or not mandatory
21 education, whether you should have given clients or
22 practice of accountancy or whether you are in
23 industry.

24 It's very hard for us to cast off
25 these mindsets so that we can have a common definition

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2 so that we can debate the issues under that common
3 definition.

4 And there is a lot of education that
5 needs to go on with all of us to make sure that we
6 have a common definition, that we are clearly
7 explaining what we're talking about so that we are
8 debating the issue with using the same meanings.

9 CHAIRMAN COHEN: Very good. Thank
10 you, Don.

11 Wanda.

12 COUNCIL MEMBER WANDA LORENZ: I
13 want you to know I think it's unprofessional that you
14 use "short" jokes.

15 (Laughter.)

16 COUNCIL MEMBER WANDA LORENZ: Some
17 of my taller friends have already asked some of the
18 questions.

19 And I do want to commend -- I know
20 that the Committee has worked hard and we're taking
21 our turn at you guys.

22 But, Curt, I want you to understand
23 we're (unintelligible portion).

24 My -- I think one thing, since
25 everybody has mentioned the details that I -- sort of

2 the details that I had in mind and I know that we are
3 trying to look at this conceptually. But I think some
4 of us fussier minded, maybe we're going to have to
5 have a little more details to be able to push this
6 thing over.

7 And that, secondly, I guess, having
8 taken a beating for confusing -- the possibility of
9 confusing the public, that it hasn't been addressed I
10 don't believe yet. That is one of my major concerns.

11 If you have this split up, if you
12 will, someone puts the tax practice over here and you
13 only have to have certificates for those people, and
14 you have your attest function, I'll just say next
15 door, and those people do have to be licensed, I think
16 -- what did they say? -- a CPA is a CPA, at least
17 that's what the public perceives now.

18 And I don't believe it is going to
19 make any difference whether I carry a license in my
20 billfold or only have a certificate on my wall.

21 And I think that -- you know, I
22 don't how that would be addressed. But I believe there
23 is a definite large chance of confusing the public
24 further than they are probably already confused
25 between the American Expresses and us, and, you know,

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you are able to be registered with the State Board or not.

And, by the way, I didn't say I'm from Texas. I'm incoming Council, and I am a member of the State Board of Accountancy and I chair (unintelligible). So this has a lot of things that I understand the problems I think of how to deal with.

CHAIRMAN COHEN: Thank you, Wanda.

You have to knell a little bit.

(Laughter.)

COUNCIL MEMBER TED KREINIK: My

name is Ted Kreinik. I'm a continuing Member of Council from Connecticut.

I think the issue of substantial equivalency had major agreement, but that's because there were really two parts to the question.

The first part I don't think anybody wants to disagree with in terms of reconciling different issues.

The second part though, let me point out in the document that we have in front of us: Individual CPAs who practice across state lines on a temporary basis or who service clients in another state via electronic technology should not be required

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to obtain a reciprocal certificate or license if they have substantial equivalency.

Well, for those of you in Illinois, think about a practitioner in Gary, Indiana, who has a modum and a fax and a phone and has clients and is doing compilations, doing the attest function, doing anything that would be normally regulated in Illinois. Would you like it?

Now, maybe you wouldn't mind if this person paid his fee like everybody else in Illinois.

But it seems to me one thing that you might have as a win/win situation, if you said that we are going to require anybody who wants to cross state lines using technology or temporary means or whatever, to pay the same freight as everybody else in that state.

We're not going to sit there and police it and count that there are three and that we call temporary, they're only there twenty-four hours and that's temporary, or we're only going to go after those people who move to Illinois.

I think with us using technology more and more, I in Connecticut can have virtually clients in all fifty-four jurisdictions and all around

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2 the world and I can be regulated and licensed only in
3 Connecticut in this case.

4 And I think that may be wrong. And I
5 think that's one thing that you might want to take a
6 look at in the detail.

7 I think the public requires that
8 type of protection.

9 CHAIRMAN COHEN: Well, isn't that
10 happening here? Hasn't it been happening for some
11 time?

12 COUNCIL MEMBER TED KREINIK: It is.
13 But I think what you are suggesting here is that
14 somebody could not be licensed, that they do have a
15 substantial equivalency. See, I have no problem with
16 that.

17 It's just that what about a State
18 Board. Who is going -- if I do one job in Illinois,
19 how do they know I'm here?

20 CHAIRMAN COHEN: I think we
21 addressed that -- Curt, didn't we address that?

22 MR. MINGLE: Yes.

23 Of course, one of the things that we
24 found with the State Boards -- Heaven knows what a
25 great job they've done -- is they find it difficult to

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regulate telephone lines.

And replying to, Ted I think it was, many -- it's valid and all that sort of thing. But in his example, if you think about it, he would suggest that that person with one client in fifty-four jurisdictions would have to pay fifty-four fees and apply and all the stuff that goes on with that.

So, again, that's good input and something we have to further look at.

Thank you.

PRESIDENT MELANCON: Can I just, very briefly.

The concept that we were focusing on is that in the Connecticut law, let's say, as part of getting your -- let's forget two-tier for a second -- being a CPA in Connecticut, as part of that law you would agree to subject yourself to enforcement in Connecticut on the basis of acts that you might perform discredibly in Wyoming. Okay?

So that if there was a complaint against you in Wyoming, the Wyoming Board would have the ability to -- and I don't know if we've worked out who would do the investigation, so let's not get into the detail, but assuming -- let's say Wyoming did the

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investigation, they would be able to hand that over to Connecticut and you would be subjected to whatever risk there is to your certificate or license in Connecticut as opposed to paying the fee to fifty-four jurisdictions.

It was more of a driver's license -
- I think it was referred to yesterday. If you live in Connecticut and you drive into New York, you don't get a New York driver's license.

CHAIRMAN COHEN: But you're subject to the New York rules and practice. And if you break them, it goes back against your Connecticut license.

MS. KATHY EDDY: We're all doing it now. So we tried to look exactly as -- to actually get it under control. If we're all doing it and State Boards aren't enforcing it, then potentially this is a way to make it legal so-to-speak but also give us the mechanism to enforce the disciplinary action.

CHAIRMAN COHEN: Debbie.

COUNCIL MEMBER DEBORAH WALKER: I'm Debbie Walker, the outgoing Chair of the AICPA Tax Division Executive Committee and incoming Council Member.

A lot of people have spoken about

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their concerns that I have, primarily CPE.

But I don't think we've had enough emphasis on the experience requirement for the non-license CPA that you are talking about.

And I guess my thought -- my question was: why did we leave off an experience requirement of some sort, maybe not necessarily an attest function experience requirement, but certainly not necessarily?

And I guess the one piece that has - - Bob Mednick mentioned a little bit about, the market isn't demanding this. What I would say is I would like to raise the bar of what the market is demanding and provide perhaps more than what they are demanding.

VICE CHAIR BOB MEDNICK: But, Debbie, if we want to raise the bar, let's go and lobby in Albany and tell them that everybody who does systems integration work ought to be regulated.

Actually, it would tell them precisely what the Governor in California told them.

This is a consumer-oriented society. We've heard Bob Elliott give one of the most masterful jobs I have ever seen, not because he's selling anybody, but he really believes it on the basis of the

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research, focus groups and so forth.

And in today's society people are buying services very comfortably from another person in a two-party service with whatever protections exist in the law.

So it's like we are asking for the regulation.

And, on the other hand -- and I'm not trying to be factitious, I'm not trying to criticize anybody because I'm very sympathetic and I understand the problems and lots else, but we're asking for it but we're not, because the fact of the matter is, I would tell NASBA and I would tell State Boards, because I personally feel very strongly, that it's almost unethical to create rules that don't ask people -- and don't enforce those rules. It strikes me as wrong.

And here we are saying this needs to be regulated and there is no regulation.

I would ask Wanda -- (unintelligible) -- but I would ask Wanda or anybody else do we really believe today that the public knows that CPAs and their regulation and peer reviews (unintelligible).

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So they might not know we are doing peer reviews at all. But we're differentiating today in how we regulate.

So if you want to regulate, I say regulate. I mean I'm not sure that's our choice. And I'm not sure that the public is deciding the issue.

That's the difficulty. And the marketplace regulates a lot nowadays.

And it's a mindset, that you need to be honest, because I really hate to see people who don't focus on the marketplace, and this has a tendency to say we don't -- I might be wrong. I mean I acknowledge that. But that's really where I'm coming from.

CHAIRMAN COHEN: We really need to pull this to a close here.

We have one more speaker, questioner.

Brian.

COUNCIL MEMBER BRIAN ROWE: Yes.

Brian Rowe, I'm an outgoing Member of Council from New Mexico.

I would like to return just to Ted's point for a minute and take a contrary view regarding

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what I think was called the literature of home state jurisdiction or something to that effect.

But I believe what you do there is that you create a problem for the public. If the home state retains exclusive jurisdiction -- as an example, somebody driving in California, or with a California license in New York has an accident, you are saying that the public or the party aggrieved in New York would have to go and be concerned about the California judicial process sanctioning them. I think that part is wrong.

I think we ought to look at a, almost a form of implied consent. If you cross the state line, then you are voluntarily subjecting yourself to all, not just the rules and rights, but the responsibilities. And that includes agreeing to take whatever action that specific state will want to take against you if there is a complaint filed.

And I think that is a more balance way to approach that part of it.

CHAIRMAN COHEN: Okay. Thank you, Brian.

Any final comments? Members of Panel?

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PRESIDENT MELANCON: Brian, that approach would certainly be looked at and that's a good suggestion.

I think that in your example of the driver's license, if you were in an accident in New York, that it's true that New York would have jurisdiction. However, pulling your California license is still subject to a decision in California.

So, you know, it is not a clear scenario.

Just one quick point about enforcing the regulations and I like to use this example because in virtually every state - not a hundred percent, but a high, high percentage - this is the case.

Rules of law in most states are very broad as to the definition of public accounting. In most states today - to use the non-CPA ownership issue, which is an issue that Council has already dealt with as an example - there are people who, for instance, work for banks and work for bank trust departments and provide bank -- do tax returns for the clients of the bank trust department.

And under virtually every state definition of public practice, that is practicing

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public accounting.

And most states also allow that CPA in their license to say they are CPAs in doing that service.

So a CPA, who is an employee of the bank, signs the tax return XYZ, CPA. Yet -- it meets the definition of public practice, and yet the Board takes -- does not get concerned about that because obviously the bank is not owned by a majority or two-thirds or whatever the rule is, happens to be in that state, of CPAs.

And so State Boards take the position and say that's not a problem.

And yet, if you choose, as a sole proprietor, as -- the hundred percent owner is a CPA -- if you choose to practice and do consulting services as an example, the State Board will take -- and bring in an owner, let's say, and let me do that, the State Board would have an awful lot of concern about that, i.e., the people who sold out to American Express. It's the whole legal battle that's going on. They were CPAs on Wednesday and on Thursday they sold out to American Express. They're still CPAs.

But the State Boards take the

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position they can't tell the world that they're CPAs.

Yet the employee who is the bank trust officer providing the same tax services says to the world that they're a CPA.

There is a fundamental problem that we have to address in an existence -- in a process that produces that result.

CHAIRMAN COHEN: Don.

MR. DON WELDON: I think maybe we focused too much on the content of regulation and not on the system of regulation.

I think if we would develop a more flexible system of regulation, the content would take care of itself.

As an example, over the last -- for seventy-five years we have somehow worked in the fifty-four various laws covering regulation a way to abrogate to a different body - the preparation of the CPA exam for uniformity purposes, we have abrogated to standard setting bodies such as the Auditing Standards Board how we should do audits in our states and so forth.

I think if we would focus on all the areas of uniformity that are important to us and find

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some way of building into the laws a way to abrogate to a national organization, if you will, the preparation of the rules pertaining to that, such as the code of conduct, then I think we could solve these things a lot faster than trying to develop what the rules should say in the fifty-four jurisdictions.

CHAIRMAN COHEN: Okay.

I want to thank the Panel, thank you all for your participation.

I think it's clear that there is a strong consensus that this is an important issue to the profession.

Obviously, there are many opinions out there on how we solve the problems.

Your input is valuable. The Committee's work is not done. They will take this input back together with the comments from the tables yesterday and continue to work with the recommendations and bring it back to you again for additional discussion and input probably at the March Regional Council meetings before we move towards any kind of -- of asking Council to vote.

Let's leave Regulation and Structure and go to something far less controversial, --

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(Laughter.)

CHAIRMAN COHEN: -- approval for the creation of an accreditation for Business Valuation.

We will now consider the petition of the Management Consulting Services Executive Committee to establish accreditation for Business Valuation.

The Council will be asked to approve the recommendations of the AICPA Board of Directors to authorize the creation of the ABV designation.

And for the benefit of particularly the new Council Members, and perhaps for all of us who need a little refresher, let me briefly review the history, at least the recent history, of discussions in general on accreditation and describe the recommendations that the Board of Directors is bringing forth today for your approval.

I think it is important for all of us to understand that the question to be put to Council today is not whether programs of accreditation should be offered by the AICPA.

Council has already decided that question.

The issue of the process of

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accreditation was raised to its current position during the Spring Council Meeting in 1993. The proposed Business Valuation credential that was discussed at that meeting caused the Council, Council Members, to call for a more systematic approach for the creation of future credentials.

Following that meeting, a special task force was appointed to consider the matter. And in the Fall of 1993 Council Meeting Council Members participated in breakout sessions to discuss the issue.

Based on the breakout sessions, it was clear that:

One, the majority of AICPA Council Members support the concept of the AICPA making credentials available to its members.

Secondly, the model for accreditation that appeared to have the most support was one which requires an examination and a limited experience requirement.

Three, any accreditation program undertaken by the AICPA needs to be financially self-supporting.

And, four, new credentials should

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only be offered based on a clear demonstration of demand from members.

The task force took those comments, comments from those sessions of Council Members, interviewed interested parties, and shaped the preliminary proposal which was discussed at Regional Meetings of Council in 1994.

And at the Spring 1994 meeting of Council the task force presented its recommendations.

And the most significant difference in the task force report from the one discussed at the Regional Meetings earlier that year was that any proposal for a new accreditation must be submitted to Council for approval.

And Council then was presented with the following recommendations, all of which were adopted.

First, that the AICPA should continue to offer a program of accreditation to its members.

Second, that all new credentials offered by the AICPA should require four hundred and fifty hours of experience in the activity over a three-year period prior to taking the credentialing

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2 examination, and that maintaining the credential
3 should require six hundred hours of experience in the
4 designated area and related CPE of at least sixty
5 hours in each successive three-year period following
6 the award of the credential.

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8 Third, proponents of specific new
9 credentials should be required to develop a business
10 plan which demonstrates that the new credential will
11 be self-supporting within three years of
12 implementation.

12

13 The business plan must provide clear
14 evidence of demand from members including the names of
15 at least one hundred AICPA members who are committed
16 to take the first related examination.

16

17 Fourth, once demand is demonstrated,
18 and especially a program that is approved by Council,
19 the AICPA would support the program to ensure its
20 success.

20

21 If a separate committee and budget
22 were to be needed to successfully launch the new
23 program, the Board of Directors would provide that
24 support.

24

25 Fifth, we explored establishing a
joint NASBA/AICPA/State Society Committee to work on

1
2 issues that arise regarding credentials held by CPAs
3 who are AICPA members.

4 And, finally, that the State
5 Legislation Committee should continue to work with
6 State Societies on issues of recognition of
7 credentials held by CPAs. The AICPA and the State
8 Boards should work to remove barriers for the use of
9 credentials held by members when those designations
10 are achieved through a process similar to that which I
11 have described.

12 Council approved the process for
13 creating and approving any specific credential.

14 There was a five-step process.

15 The first step was that any
16 Executive Committee of the AICPA may petition the
17 Board of Directors to create a new AICPA credential.

18 Any State Society working through an
19 Executive Committee could do the same thing.

20 The petition must include a
21 description of the credential, a business plan and a
22 tentative content specification outline for the
23 examination.

24 Step two. Upon acceptance of the
25 petition by the Board of Directors, the petitioners

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would be assigned AICPA staff support and a budget to expose those proposed credentials to the membership and to solicit members to apply.

Each proposed new credential would be required to have broad exposure to AICPA Council, Committees, State Society and AICPA members.

Step three. After broad exposure for comment and the demonstration of sufficient member interest, the credential proposal would be forwarded to the Board of Directors for approval.

After approval by the Board, the credentialing proposal would be forwarded to the AICPA Council for final approval.

And that's exactly where we are today with regard to the BV accreditation.

The fourth step was that after approval by Council -- after approval by Council, a specific Credential Committee would be created and staff would be assigned to support the committee and the new credential holders.

An Examination Preparation Committee would be created within the Examinations Division and resources would be allocated to the Examinations Division to manage the preparation, grading and

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administration of specific examinations.

So the Credential Committee and the Examination Preparation Committee would take the approval of the concept from Council and be responsible for implementation, be responsible for getting all of the details ironed out.

The fifth step would be that the Board of Directors will continuously monitor all credential programs for financial viability.

The recommendations of that special task force on accreditation were presented to Council at its meeting in May of 1994, two-and-a-half years ago, and were approved by Council.

That's the history of the whole accreditation concept within the AICPA and with this Council.

And that brings us to the matter to be presented to Council today.

Council will be asked to approve the recommendation of the Board of Directors to authorize the creation of an accreditation in Business Valuation.

And the Board received and approved a petition of the Management Consulting Services

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Executive Committee which complied with the requirements of Council.

The proposal included evidence of sufficient demand for a program of accreditation, a business plan assuring self-funding within three years, and the results of a member survey which demonstrated strong member support.

I think all of you got copies of those -- of all of that information in your handouts.

At this point I am going to ask Melinda Harper, who is the Chair of the MCS Executive Committee, and Ed Dupke, who is the Chair of the Business Valuations and Appraisals Subcommittee, who have joined us here at the table this morning, to briefly describe the process undertaken by this Committee to bring the petition to the Board of Directors, the results of the survey of Members undertaken at Council's request and the comments on the program by other committees of the Institute who had the opportunity to give them input.

Ed.

MR. ED DUPKE: Thank you very much,
Ron.

And good morning to all of you.

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First of all, on behalf of the Business Valuation Committee and the MCS Executive Committee, we wish to express our appreciation to all of you, Members of Council, and to the officers and members of the AICPA Board and to all the members of the AICPA across this country who took the time to share their comments with us and to respond to the request for comments that we sent.

The proposal that the Board will bring to you today is better than the one we started with as we began this process eighteen months ago, and it is responsive to the members' concerns.

I believe it's a demonstration that the process works.

The great American poet, Robert Frost, a number of years ago wrote a poem about a traveller that had to choose a path. The traveller comes to the dividing point, takes a look at each path, looks down both of them as far he or she could, and then makes a choice.

Today, we are like that traveller. We have a choice of two paths.

Eighteen months ago, the MCS Business Valuation and Appraisals Committee began a

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process that attempted to accomplish four things.

First of all, to establish a credential obtainable by CPAs in firms of all sizes.

Secondly, to establish a credential that appeals to members in all areas - industry, government, education and in public practice.

It would be a credential that would enhance and complement the CPA designation. It would position the AICPA as the leader in the Business Valuation industry as well as the mother organization for new services of expertise, the types of which are being developed in our firms.

The process began formally in August of 1995. A plan was created and presented to and approved by, after significant input, the MCS Executive Committee.

And, again, our emphasis was on creating a plan that conformed in all respects to the framework Council set up and Ron has just described to us.

In February of 1996, we presented this plan to the Board of Directors for their reaction and feedback.

Modifying the plan for their

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comments and improving it, it was then presented to you in the Regional Meetings of Council in March of 1996 for information purposes only.

At the same time, in March of 1996, the proposal was sent out to State Societies, to their Business Valuation and Litigation Support Committees, to Federal Tax Committees, to State Tax Committees, and to the chairs of other selected AICPA Committees.

Comments were received.

Modifications were made to the proposal.

In April of 1996, the AICPA Board of Directors granted approval for us to come to Council in May to ask for permission to proceed with the required substantive public exposure period. You Members of Council granted us that permission in May of 1996.

A survey was then developed by the AICPA staff with input from us and input from senior AICPA management. And it was reviewed by a planning and research team to ensure statistical reliability.

In July of 1996 that survey was sent to 5,000 members of the AICPA, fifty percent of whom were members of the MCS Section and another fifty percent to other members who had expressed an interest

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in consulting.

And in September of 1996, we reported the result of that survey to the Board, we presented an updated financial plan, and then asked the Board to approve our petition for accreditation.

I'd briefly like to review some of those survey findings with you. And, by the way, all of the details on the survey are in your packet of information.

As you notice on the screen on our first slide, 5000 member were surveyed, 2500 the Section Members, 2500 non-Section Members. We received a very good thirty-two percent response rate. Actually, from Section Members it was thirty-seven percent and twenty-seven from the non-Section Members.

And here is what we found.

Whoops, wrong slide, Dennis.

We found that seventy-eight percent of the respondents agreed that accreditation would benefit the members through AICPA support.

Eighty percent said to us we agree that a credential raises the visibility of the AICPA and CPAs in general as the leading providers of business valuation services.

1
2 Eighty-five percent said to us that
3 a BV credential would provide value.

4 And seventy-one percent agreed that
5 the AICPA should sponsor some form of business
6 valuation credential -- some form of a credential in
7 business valuation.

8 Additionally -- the next slide,
9 please -- sixty-seven percent of the respondents
10 agreed with these two statements: A business valuation
11 credential may allow CPAs to effectively compete
12 against other non-CPA appraisers, and a business
13 valuation credential may allow CPAs to provide higher
14 quality business valuation services through the
15 related programs.

16 And now, Melinda Harper, the Chair
17 of the MCS Executive Committee, will share with you
18 comments that we have received from other AICPA
19 committees and share with us some additional survey
20 results.

21 Melinda.

22 MS. MELINDA HARPER: Thanks, Ed.

23 As Ed Dupke has described,
24 throughout this process the MCS group has communicated
25 with the States and other interested AICPA committees.

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Now, we described part of that process when we were in front of you in May. But after the final Board vote to present the BV proposal as it is shown in your materials, that final proposal was sent to various AICPA committees with a request for comment.

As a result of that request, four committees wrote letters of support for this proposal.

Three of those letters are in your packets. They are near the back of the packet.

The first letter is from Kaycee Krysty, who is the Chair of the Personal Financial Planning Executive Committee. And I'm just going to read very brief portions from these letters.

And it says in part: "...in response to your proposal on the Business Value Accreditation Program...We congratulate the MCS Executive Committee and the Business Valuation Subcommittee on its efforts...and believe our profession must establish accreditation programs for members who specialize in various practice areas."

Kaycee is the Chair of the Personal Financial Planning Executive Committee and that letter came to us in August of this year.

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2 In September, we received a letter
3 that was sent jointly by Jim Castellano, who is the
4 Chair of the Management of an Accounting Practice
5 Committee, and David Schlotzhauer, who is the Chair of
6 the Small Firm Advocacy Committee.

7 And their letter notes that: "The
8 members of our committees in attendance at a September
9 10, 1996 meeting voted unanimously to support the
10 revised proposal..." for the Business Valuation
11 Accreditation Program.

12 The next letter we received was from
13 Mason Andres, who is Chair of the Private Companies
14 Practice Executive Committee. That letter states in
15 part that "...committee members have reviewed the
16 revised Proposal for the Business Valuation
17 Accreditation Program...and a majority of the PCPEC
18 members have expressed support for the revised
19 proposal...."

20 The fourth letter that we received
21 was not in your packet. We received it too late to
22 include it. And it's from Deborah Walker, who is Chair
23 of the Tax Executive Committee.

24 And the letter is brief and I'm
25 going to read it.

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The letter is addressed to me.

"At its meeting on October 8th, the Tax Executive Committee voted to support the MCS Executive Committee proposal for accreditation in Business Valuation. We believe that this accreditation program will help promote CPAs as premier business advisors.

"Accreditation will increase the stature of CPAs in general by highlighting this particular area of CPA competence.

"We are pleased that the MCS Executive Committee agrees that the Credential Committee and the Examination Preparation Committee to be created following Council approval will include representatives of the Tax Division and other areas of practice to implement the program.

"We look forward to participating in designing the examination, reviewing credentials, determining qualifying CPE and enhancing the overall program.

"Thank you for the cooperation shown by you and your committee and by Mr. Dupke and his subcommittee in responding to our concerns. We applaud your spirit of inclusiveness and look forward to

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working with you to make this fine new program available for all AICPA members."

The five committees - PFP, MAP, Small Firm Advocacy, Private Companies Practice and Tax - expressing support for the BV accreditation represent a wide spectrum of our members. Their support, I believe, demonstrates that the BV proposal being presented today has broad support.

I also believe that this is an appropriate time to thank and congratulate both Ed Dupke's committee and Steve Sacks for all of the hard work that they put into this, the efforts that they've made and what I believe is the high quality of the final proposal that we are going to vote on today.

Before I turn it back to Ron, I'm going to show you one more slide.

This describes some of the additional feedback that we received. And while there were lots of positives in that survey, this was the biggest area of concern and it was an area of concern that showed up in letters and calls that we received as well.

And it was concern about the hours requirement.

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And this table that the data came from is in your packet on page thirty-three.

And the concern was that if the four hundred and fifty hour requirement to take the exam remains, seventy-eight percent probably would not receive the designation. If the six hundred hour requirement for reaccreditation remains, eighty-six percent would probably not receive the designation.

This obviously was a major area of concern and one that had to be addressed.

And I believe it is reasonably intelligibly addressed in the final proposal and demonstrates the benefit of a deliberative and collaborative process.

We certainly appreciate all of the time that you have all put into this listening to us session after session on this topic.

And Ron is now going to report to you on the result of the Board's deliberations and what they are recommending to Council.

Thank you.

(Applause.)

CHAIRMAN COHEN: Thank you, Ed and Melinda.

The Board of Directors believes, first, that the MCS Committee did an outstanding job in preparing its request for the Board.

The Committee complied with the resolution of Council. Its business plan is reasonable and, most importantly, it was responsive to the concerns of Institute members. And you heard of the support that the Committee received from many different parts of the profession, many different constituencies, and the concerns that they addressed together with the Board in coming up with the final recommendation.

In reaching what was a unanimous decision, the Board of Directors considered the eligibility requirements to participate in the program, the program's impact on the small firm practitioner, the benefits created by combining the Business Valuation credential with the CPA credential, the program's existence in a marketplace that is shared by other appraisal credentialing organizations, and the multi-disciplinary appeal of the program.

In the Board's consideration of an Accreditation of Business Valuation during its meeting of July and again in September, there was agreement

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that an experience requirement is necessary, it's a necessary component of any accreditation program. Council decided that a couple of years ago as well.

The Board concluded, however, that experience need not be measured in hours. It unanimously agreed to recommend to Council an equivalent measurement: evidence of a sufficient number of valuation engagements that demonstrate substantial experience and competence in business valuation.

The Board feels strongly that its recommendation both keeps faith with the 1994 resolution of Council and, as importantly, it is responsive to the needs of members.

The program will not exclude those who provide other CPA services for the benefit of those practitioners who specialize in business valuation. And it was felt that if experience were to be measured in hours, the uneven or cyclical client demand for valuation work would exclude those who provide other CPA services but who are otherwise qualified to provide competent services in this area.

Following Council approval of the ABV credential, as I said before, implementation of

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the accreditation program will be turned over to the Credential Committee to work out the details and to the Examination Preparation Committee to set the standards for the examination.

It is the Board's intent to create a Credential Committee which will include a broad range of membership from both public practice and business and industry. And the public practice practitioners will include the full scope of public practice including members of the Tax Division.

So on behalf of the Board of Directors, I present the following recommendation to Council.

That Council approve the creation of an Accreditation in Business Valuation which would be available to members in good standing of the AICPA holding a valid, unrevoked CPA certificate; who in order to be eligible to sit for the written accrediting examination must provide evidence of ten business valuation engagements that demonstrate substantial experience and competence.

To maintain the accreditation the credential holder shall submit at the conclusion of every three-year period documentation demonstrating

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substantial involvement in five business valuation engagements and shall complete sixty hours of related CPE during that same period.

Implementation of the accreditation program will be undertaken by a Credential Committee composed of members representing a broad scope of public practice as well as members in business and industry, and an Examination Preparation Committee.

The Chair will entertain a motion to approve the recommendation of the Board which I've just read to you.

A COUNCIL MEMBER: So moved.

CHAIRMAN COHEN: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRMAN COHEN: Is there any discussion?

COUNCIL MEMBER GALE CASE: Mr. Chairman.

CHAIRMAN COHEN: Gale.

COUNCIL MEMBER GALE CASE: Mr. Chairman, I'm Gale Case, Council Member from California and Immediate Past President of the California CPA Society.

At Spring Council this year in La

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Costa I made a statement on behalf of the California Council delegation expressing our very serious concerns regarding the Institute's accreditation program and the ABV proposal.

Those concerns are an outgrowth of two California Society task force studies of specialization, strong opposition to the Business Valuation proposals from our Litigation Services people, and resolutions adopted on several occasions by the California Society Board of Directors.

Our Board has addressed specialization, including accreditation, four times during the past five years, including twice since Spring Council; once with regard to the original ABV proposal, and again after experience modifications were being considered.

California believes in specialization. It is both inevitable and beneficial.

However, we believe that accreditation will not get the job done. We believe that it will not be an effective way to facilitate specialization within the CPA profession.

Among our concerns are the following.

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The AICPA accreditation program is ad hoc. At this point at least there is no master plan that Council has ever seen for prioritizing accreditation roll out in a strategic way.

Under the present Council guidelines accreditation programs are likely to be proposed randomly by a series of small special interest groups. We think that is a serious problem.

Secondly, the accreditation program does not address the areas of most serious public need. Audit and tax are areas that exhibit higher levels of public dissatisfaction in the form of lawsuits, but do not appear to be a part of the Institute's plan.

Instead, comparatively narrow practice areas are being emphasized.

Three, specialization needs to be free to evolve over time. Competencies of CPAs must develop and change to meet new currently unanticipated market conditions and needs.

However, the establishment and proliferation of accreditation credentials will impede such flexibility. With six or eight or twelve distinct credentialing areas artificial walls will be erected

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2 between areas of public practice, relatively rigid
3 bodies of knowledge, examination requirements and
4 minimum competency criteria will soon make it
5 infeasible for practitioners, especially in smaller
6 practice units, to maintain the practice flexibility
7 needed to make a living in a continually changing
8 marketplace.

9 Four, the AICPA cannot hope to
10 compete with the broad array of independent credential
11 issuing organizations such as ASA, IBA, NACVA, et
12 cetera. Such competing single purpose entities will
13 always be quicker to start up, mobilize and build
14 membership.

15 The Institute, on the other hand, is
16 a very large organization with diverse constituencies
17 and competing roles. Because of this complexity,
18 however fleet at foot we become, we are likely to
19 arrive late in the innovative day.

20 Five, the majority of CPAs will not
21 be made more competitive by accreditation, nor will
22 their CPA credential be enhanced.

23 The plain history of most
24 accrediting organizations has been that only a
25 minority of their members seek to obtain their

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credential even after decades of operation.

We believe that the majority of our members will not benefit from accreditation and we will all be disadvantaged as credentials other than the CPA itself are emphasized by the profession as standards of practice excellence.

Six, we believe that smaller practice units would be particularly disadvantaged. It simply will not be feasible to take on multiple complex accreditation regimens and few smaller practice units have the luxury of focusing in a single area of practice.

Finally, in light of comments we have heard here in Chicago for the very first time about a possible role for accreditation in the development of assurance services, we believe that the Institute should give Council an opportunity to understand the overall strategic approach being contemplated and not expect Council to embrace accreditation on a piecemeal basis.

For these reasons, among others, the California delegation opposes accreditation as a mechanism for implementing specialization and is opposed to the ABV proposal.

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We have shared with you at your tables a brief synopsis of our concerns.

I urge you to read that material and invite you to join us in voting no on the ABV proposal.

We then hope that the Institute will continue to develop and share with Council a comprehensive strategy for dealing with specialization that does not put all of our eggs in the accreditation basket.

Thank you.

(Applause.)

CHAIRMAN COHEN: Thank you, Gale.

Some of you may know that Gale was kind enough to come to New York to our Board meeting and enter into a debate on this topic with the Board prior to the Board taking this action. And we appreciate his willingness to do that.

Bill.

COUNCIL MEMBER BILL STRAIN: I'm Bill Strain. I'm a Council Member from Nebraska. We are not quite as well known as California but I will remind you we are the NCAA, two times the NCAA champions in football.

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(Laughter.)

COUNCIL MEMBER BILL STRAIN: I would like to share with you briefly a real life experience of my experience in business valuation and my opinion on this particular question.

I am a partner in a local firm in Lincoln, Nebraska. We have about seven professional staff, two partners.

And we three years ago in our long-term strategic plan determined that we needed to develop some specialties to lessen our reliance upon tax and audit.

I was interested in the business valuation area and chose to pursue it.

The first place, of course, that I looked for help in pursuing this was my own organization, the AICPA, and didn't find anything there.

So I went to the other organizations that existed. And to make a long story short, I am now a member of the ASA, the IBA, NACVA, and I also have my CEA and CPA from the AICPA.

My short synopsis here is that obviously I think accreditation would fill a need for

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our members in terms of pursuing this specialty and would be good for the members.

I think it would also address some of the questions that are coming up in business valuation. One of the interesting questions that is being discussed right now is whether CPAs that are in business valuation should be able to do -- in connection with independence and objectivity, whether CPAs should be able to do business valuations of clients that they are also auditing.

And, again, I don't know that that question has been resolved, but I think it would be -- I would like to have my own organization, once again the AICPA, involved in determining the answer to that. I understand it's a different question than CPA.

The other thing that I would mention to you is that I think this would help the business valuation profession as well. It would be a win/win situation.

For example, in valuing small clients, which I do, you know, the comparable criteria that we really rely on is industry data and comparable sales and -- guideline: sales, current sales.

The only data base -- well, not "the

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only," but the best data base that exists right now, as far as I can tell, is the data base that the IBA, the Institute of Business Appraisers, has. And it has identified seven hundred and seventeen different types of businesses through SIC codes.

The common opinion is that you need at least twenty comparable sales to have good data to use when you determine the value of a business. And of those seven hundred and seventeen, the SIC codes, there are twenty or more sales and only fifty-eight SIC codes.

My point -- and it has been developed over seventeen years -- my point is that -- and this is certainly not part of this proposal, but I think by the AICPA becoming involved in the business valuation profession, we have an awful lot of core data through our members to develop a much more effective data base that the business valuation profession could really be improved by.

I might also say that the data base that currently exists comes primarily from business brokers and there is simply no assurance of any kind of consistency as to what's in those numbers, whether those sales represent assets or whether they represent

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stock or if their assets -- what's included in those assets.

And, again, I think we can develop a much more effective process for developing consistent data.

So I conclude by saying -- and I noticed Steven Cobey was mentioned a couple of other times, I'm a Steven Cobey fan -- I think we have a win/win situation here and I would strongly be in favor of this and would encourage you to vote yes.

CHAIRMAN COHEN: Thank you, Bill.

(Applause.)

CHAIRMAN COHEN: If you look at your agenda, you'll notice that we allocated a total of one hour. We probably miscalculated, underestimated the amount of time involved to discuss this issue, and probably because, I suppose, we felt that it had been discussed so many times before.

As you can see, we have a lot of people lining up at the mikes. So I would ask you all to be very sensitive to our time requirements.

Brian.

COUNCIL MEMBER BRIAN ROWE: Thank you, Ron.

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2 Again, Brian Rowe from New Mexico,
3 an outgoing Member of Council and the Immediate Past
4 President of the New Mexico Society of CPAs.

5 In a recent board meeting we
6 reiterated our near unanimous support of the Institute
7 moving forward aggressively with such a program that
8 you are doing with the business valuation specialty.

9 And we thank Ed and Melinda for all
10 of their hard work.

11 We did have some concerns, if you
12 will.

13 One had to do with the consistency
14 of the use of the standards and terminology.

15 One was raised with regarding the
16 use of the word "accreditation," where you recall back
17 initially the Personal Financial Specialist
18 designation carried that same "accredited" term and
19 then it was dropped off. We just suggest in the future
20 you look to try and make sure there is some
21 consistency there with respect to that.

22 The other had to do with the
23 consistency of the standards.

24 And I would just like to relate the
25 problems it might now have created for us in New

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Under some of the earlier proposals put forth by the Institute in the early -- late 1980s and early 1990s, we went to our legislature in 1991 and gave the State Board the authority to establish and maintain the standards by which specialty designations could be used in conjunction with the practice of public accountancy.

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Subsequent to that, when the Institute came forth with its standard, I mean the hours standard, we went back to the board and had them enact the rules that encompassed those basic standards.

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We now have a situation where this particular specialty, when it will be approved today, it could be a situation that there will be individuals who could not use it in our state until we go back a third time and change the rules to provide for substantial equivalency.

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We would just encourage you to look at that in the future in terms of not just the impact on the individuals and the public, but the impact on those of us who have been good foot soldiers.

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I would like to take a counterpoint

2 to the individual from California and would gladly
3 debate them one-on-one on a personal and a theoretical
4 level as to why the time is right to move aggressively
5 on this.

6 My individual comment is that I
7 undertook a certification program and a specialty when
8 I was a sole practitioner working out of my house,
9 gladly met the requirements because it gave me the
10 ability to go out and be competitive in the
11 marketplace with some of the larger firms and some of
12 the people that had a lot of opportunity to do it.

13 And I think that it's almost the
14 contrary, that specialization will be a great help to
15 smaller firms and sole practitioners because once you
16 make that commitment, you, in effect, will forego in
17 saying I do everything and in saying I do a few things
18 and I try to do them damn well.

19 Thank you.

20 CHAIRMAN COHEN: Thank you.

21 (Applause.)

22 CHAIRMAN COHEN: Yes. This side.

23 MR. LARRY GILL: I'm Larry Gill, a
24 Member of the Board of Directors of the Illinois
25 Society of CPAs and I'm an incoming Council Member.

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I'm here to report on the Illinois Society's action in this regard taken in October. And many of you will be surprised to find that this was not an issue which resulted in our Board taking various sides.

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That's primarily because it would be geometrically inaccurate to describe a circle as having a side. We approached this from every possible angle.

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It is one of those situations where you were really in luck in search for a one-arm advisor because we had a number of ongoing casts on the other.

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And having said that, therefore, and having given a humble bow to those who are going to take a position opposing the position we took, let me explain that we are supportive of the accreditation program.

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And that support was given for, as I've suggested, a number of various reasons.

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One of the primary reasons though seemed to be a market -- first was kind of an offensive marketing, that is, to stake out the AICPA and the CPA as being an individual who does something

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more than perform the attest function.

Ninety-six percent of us agree that we are moving out of that. We understand that we have to educate the public that this is where we are going. Certainly the accreditation process is one way to do that.

Secondly was more of a defensive marketing standpoint. It is said that nature abhors a vacuum, but nature could learn a lot from the organization world. You build it and they will come.

There is no question but there are already in this area alone a number of bodies who have come in to fill the vacuum, to some extent created by the fact that the AICPA did not move in swiftly enough.

I was an instructor and an author of the AICPA Business Valuation CPA program. I was not shocked that a number of the people who participated in that program came not because of my eloquence but only to get a certificate.

And we talked about trophies yesterday. This is an area which for some reason is driven by trophies. Perhaps it's a result of that insecurity that Edith Weiner talked about yesterday.

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2 More likely it's a question of being litigation driven
3 because people need to have those credentials.

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5 But, in any event, as we look
6 forward in other areas and scope back, we were driven
7 by the fact that we could market this concept both
8 offensively and defensively, because if we're not
9 there, others are going to move in.

9

10 But there were significant caveats
11 to our approach.

11

12 Harvey Cousteau talked about the
13 devil being hidden in the details. That is not the
14 case here. The devil is not hidden. The devil is doing
15 a macarena of details here.

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16 We have a situation where we were
17 very concerned about a number of issues in terms of
18 the implementation. I'll read those quickly.

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19 First of all, we were concerned
20 about the body of knowledge. Now, this is a sea of
21 knowledge really which is fed by tributaries from a
22 number of different fields. Accounting is only one of
23 them. There's accounting, there's finance, there's
24 common sense.

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25 What is that body of knowledge we
got to define?

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We got to be careful in setting standards.

And we have to be, unlike perhaps with the Personal Financial Planner, we have to market. This is marketing driven and we got to get out there and market.

So what are we saying? Let me emphasize a caveat here. The Illinois Society is very concerned that the implementation be carefully considered.

So we're not -- you know, we are not saying go forth on this road but you can't get there from here. I think what we are saying is go forth on this road but make sure you take along a number of strong guides.

CHAIRMAN COHEN: Thank you, Larry.

That is precisely -- the implementation committee will be multi-disciplinary and certainly will address those issues.

And, again, I would ask each of the speakers to be sensitive to our time demands here.

Eric.

MR. ERIC SCHINDLER: Thank you, Ron.

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My name is Eric Schindler. I'm an incoming Council Member from Washington and I am currently the Chair of the AICPA Strategic Planning Committee.

And I feel compelled to respond to California's argument so please give me a couple of minutes. I won't be very long but I do want to respond to their argument.

Today we hear criticisms surrounding our profession. We hear criticisms about standards overload. We hear criticisms about the FASB's inability to respond in a timely manner.

Well, I would argue that there is a much bigger problem. There is a much bigger problem and these are symptoms of that problem.

And Larry Gill touched base on it, and that is, this growing body of knowledge that exists in the world today.

Knowledge, experts tell us, that if you look at the body of knowledge that exists in the world today, if you can put it in a box, it represents one percent of what's going to exist in the middle of the next century. One percent!

I suspect that the medical

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2 profession had this very debate on their floor some
3 years ago and they elected not to pursue
4 specialization. And the result was that they have a
5 fragmented profession; that at one time they had
6 greater than seventy percent of the doctors in the
7 United States were members of the AMA and today that
8 number is somewhere around forty percent because they
9 were unable to respond to the issue of specialization.

10 And their body of knowledge grew
11 much faster and much quicker than ours. But clearly
12 that's what forced them to make some decisions. And
13 they took, in my opinion, the wrong path down the road
14 of specialization.

15 Knowledge experts will also tell you
16 that the only way you can manage a growing body of
17 knowledge is to carve that knowledge up into pieces
18 and to be able to specialize within those pieces in
19 order to be effective.

20 And if you look at what the big
21 firms have done -- this concept of specialization is
22 not a big firm issue, it's a medium and small firm
23 issue. What the big firms have done is they have
24 recognized they can no longer deal with this growing
25 body. So they have elected to specialize along

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industry lines.

And so they no longer can send an auditor one day to a manufacturer and to a financial institution the next day like they did with me when I was a member of the Big Six.

There is currently a diminishing value today in our traditional services. No one can argue that point.

The market defines the opportunities for us moving into the future. We need to be responsive, and as new opportunities come up, as this body of knowledge grows, to be able to respond, to jump in and be able to carve out with our expertise areas that we can specialize as we move into the future.

Lastly, the CPA doesn't have to be diminished. We can use it as a foundation. Just as doctors, even though other organizations deal with specialization because the AMA didn't respond, doctors are still doctors first and specialists second.

The people in this room today are the leaders of this profession. Leadership implies stewardship.

As you think about this move in the

1
2 future, and we leave this profession to the next
3 generation of CPAs, are we better off leaving it with
4 or without an accreditation process?

5 Thank you.

6 (Applause.)

7 CHAIRMAN COHEN: Thank you, Eric.
8 The next speaker over at that
9 microphone.

10 MR. MITCHELL FREEDMAN: My name is
11 Mitchell Freedman. I am not a member of Council. I am
12 not part of the California delegation. And I am
13 speaking as a California CPA for myself and on behalf
14 of the many CPAs in California.

15 My practice is in the San Fernando
16 Valley of the City of Los Angeles. I have a small
17 firm. I am very active in the profession. I'm
18 currently the Vice Chair of the California PFP
19 Committee. I'm serving on the AICPA Personal Financial
20 Planner Executive Committee. I'm in my third year
21 after serving three years on the AICPA Personal
22 Financial Planning Member Services Subcommittee.

23 I am here to speak in favor of the
24 BV accreditation and in favor of accreditation in
25 general.

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In recent years there has been a dilution of the need for services in which CPAs have previously had a franchise.

Advances in technology have reduced the complexity of much of the work that CPAs do, particularly small CPA firms and sole practitioners.

The personal computer has virtually eliminated the need for write-up services for the small business owner. Even individuals can more easily record and track their finances with inexpensive and decent commercial software packages.

Many taxpayers can now prepare their own tax returns because of the proliferation of tax prep software and we can only anticipate that this trend will continue and possibly accelerate.

We have also seen a trend which is that other non-CPA businesses are beginning to encroach at an accelerating rate on service areas that were traditionally performed by CPAs. Now, unlicensed individuals are performing these services.

Competition has caused traditional attest work to become less profitable and at the same time more risky from a professional liability perspective. The result has been that an ever-

1
2 increasing number of small practice units have
3 severely reduced or given up attest work.

4 Within the profession, the Big Six
5 and other CPA firms that are large have become highly
6 specialized. They have industry sector experts, tax
7 experts in various aspects of tax law, and experts in
8 management consulting and litigation services, on and
9 on.

10 The public knows that these firms
11 are specialized and consumers of accounting services
12 who want this specialization will seek this expert
13 service because they know it is there.

14 State Boards of Accountancy continue
15 to say that all CPAs are equal. They proclaim that all
16 CPAs can perform an audit because they are licensed.
17 This is just not true anymore.

18 Furthermore, in this professional
19 climate and economic environment marketing specialists
20 say that small CPA firms and sole practitioners should
21 seek niche markets in order to separate themselves
22 from the pack.

23 Many practice units, particularly
24 large ones and those that are owned by younger
25 practitioners, are doing just that.

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2 Not surprisingly, this type of
3 strategic marketing plan does make practice units more
4 successful.

5 Why can't we CPAs learn from our
6 colleagues and clients in the medical profession and
7 the legal profession? They have specialized and they
8 are reaping the financial and professional rewards of
9 doing so.

10 Furthermore, those who have
11 specialized have been perceived by the consuming
12 public to have superior skills deserving of a premium
13 in fees.

14 Why aren't we moving forward with
15 specialization?

16 I submit to you that many older
17 professionals fear that if they do not specialize,
18 they will be perceived as less valuable by their
19 clients.

20 My observations have been that
21 younger practitioners embrace specialization openly
22 but the old guard fears it. Frankly, I don't think
23 that anyone above the age of fifty should fear
24 accreditation or specialization. I will illustrate
25 that in a moment.

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The accounting --

CHAIRMAN COHEN: Which covers most of us, incidentally, here.

MR. MITCHELL FREEDMAN: Myself included.

The accounting profession is changing, growing and evolving. Yes, my conservative brethren, it is changing because our clients have different needs today than they did twenty, fifteen, ten and five years ago. They even have different needs today than they did a year ago.

We, as a profession, must position ourselves to meet the challenges that our clients will present to us. If we do not, others will take away our business.

We have unique skills and education that enable us to serve our clients in a myriad of ways not even contemplated by CPAs a generation ago. If we do not meet the challenge, others will and we will be left with little of value.

And here is an example.

A generation ago the Swiss had the franchise on clocks and watches. They were the master timepiece makers. They had something like ninety-five

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percent of the world market share of watches and
clocks.

Today, they have about ten percent
of the market, which is now dominated by the Japanese.
The quartz watch replaced timepieces that had wheels
and cogs.

Were the Swiss stupid? Why didn't
they see this happening?

It might surprise you to know that
the Swiss invented the quartz watch. Swiss watchmakers
discounted it, however. The reason they discounted it
was that it wasn't what a watch was supposed to be. It
didn't have wheels, it didn't have cogs. It had a
battery. And the consuming public would never buy it,
the Swiss postured. Surprise! The consuming public did
buy it.

How is this analogous to the CPA
profession and specialization and accreditation?

The consuming public wants
specialists. It appreciates specialists and their
credentials. The more letters after the name the
better according to surveys of the Baby Boomer
generation.

If CPAs do not supply the accredited

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specialists, other entities will. The market will thus be taken away from us just like the quartz watch took away the market from the Swiss.

Specialization is good for the small practice unit and sole practitioner because it will provide niches for profitable professional practices. For those practitioners who feel they do not need specialization or who do not want to take additional CPE or pass a rigorous examination, they shouldn't worry. They can continue to be general practitioners.

If they have special expertise and they have been practicing for many years, the consuming public will recognize their expertise. Therefore, for many years the specialty edge will only be slight.

How do I know?

I am a PFS. I became one more than eight years ago when I took the exam. At the time I was forty-six years old. I considered myself a pioneer. I did not expect immediate financial reward or recognition. And I was not disappointed.

The rewards have been slow in coming. However, every day more CPAs become aware of specialization. There are now about 1600 PFSS in the

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2 country. The media is beginning to become aware that
3 there are CPA specialists out there.

4 My practice is growing, particularly
5 in the areas of my specialization. And my services are
6 deemed worthy of a fee premium by my clients.

7 My fellow CPAs, there is strength in
8 numbers. More specialties and more specialists will
9 enhance the image of the CPA specialist and the
10 profession will gain the respect that it deserves.

11 We are unbiased, we are trusted, we
12 are analytical, we are educated, we are professionally
13 self-regulated. We are the professionals of choice.

14 Specialization can be a benefit to
15 the consumers, our clients, who will perceive that
16 they will obtain and they will obtain superior
17 services.

18 Remember the tag line we want the
19 public to remember: "The CPA, never underestimate the
20 value."

21 We, as practitioners, should not
22 underestimate the value of specialization in the
23 public's view of the CPA.

24 Thank you.

25 (Applause.)

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CHAIRMAN COHEN: Again, I hate to limit this. We are ten minutes over our allotted time. We have eight speakers who are still approaching the microphone.

I'm going to have to ask you all to be brief or -- I hate to cut you off. But we clearly -- we've heard a broad range of opinions. Please be brief in your comments.

Yes.

COUNCIL MEMBER JERRY KREGER: Mr. Chairman and Mr. President, Committee Heads, fellow Council Members and guests:

My name is Jerry Kreger. I'm President of the Ohio Society. I'm the Ohio's representative designated to Council.

I'm a partner in Aronowitz, Chaiken & Hardesty in Cincinnati. We have eight partners and forty-eight total office.

I come before you today to express the unqualified support of not only Ohio's delegation to Council, but the Ohio Society's Board of Directors for the concept of accrediting specialties and the Business Valuation proposal currently before Council.

The Ohio Society support for

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accreditation of specialties by CPAs goes back to 1984 and that position was reaffirmed by our Board of Directors in June.

Several years ago the Council established a program, a series of requirements that must be met to accredit a specialty within the AICPA.

The requirements are reasonable and intended to establish both a baseline competency based on experience and continuing responsibility. That demonstrates that this is a legitimate specialty area of the CPA.

While we would prefer that the original requirements based on hours and engagements be retained, we understand that compromise is often necessary for change to be realized.

The time has come for the members of our Council to conclude what I'm sure some here today view as an endless debate on a relatively straightforward proposal.

There are numerous organizations that accredit CPAs and others in the art of valuing a business. One of my partners has received the NACVA certificate and he did so because there was not an accreditation program within the AICPA. That doesn't

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make sense to the Ohio delegation.

In conclusion, quite frankly, we would prefer that the CPA credential were sufficient in and of itself for CPAs to provide literally any service that our clients might need. Unfortunately, the reality of the complex world we live in and the details that are coming on the aspects of our profession make it necessary for us to provide an accreditation program such as this.

When our peers in the AICPA are seeking accreditation of their business valuation capabilities, it makes no sense for this Council to stand in the way of progress.

It is time for the Council to approve the Business Valuation proposal and ensure that the appropriate resources are allocated to support the program and move on to the other important matters that require our attention.

The other members of the Ohio delegation join me in encouraging you to vote for the recommendation before us today.

Thank you.

CHAIRMAN COHEN: Thank you, Jerry.

(Applause.)

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CHAIRMAN COHEN: Yes.

MR. ANDREW BLACKMAN: I will
shortcircuit mine.

Ladies and gentlemen, I am Andrew Blackman from New York City. I'm a small firm. I'm here today as the Chairman of the Personal Financial Specialists Committee, an outgoing member of the PFP Division's Executive Committee. I am also a member of the New Jersey Society, New York Society and California Society of CPAs. I mention that only because I know there are delegates from those three State Societies who disagree with this proposal and I'm here to tell you that I'm in favor of it.

I will try and be brief because some of the comments have already been made.

(Applause.)

MR. ANDREW BLACKMAN: I would only reiterate.

But let me give you a statistic. Last month Worth magazine published an article citing the two hundred best financial advisers in the United States today.

On that list were fifty-eight CPAs. Fifty-three of those CPAs had specialist designations,

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either the PFS or the CFP or both.

Of the other one hundred and forty-two, one hundred and thirty of them were CFPs. That should tell you something, that in order to be a credible expert in your field, you need to have a designation.

Lastly, many of the people who asked me to oppose specialization seemed to have a undercurrent of selfness to it, that they seem to say I will not be somebody who will be going out getting this designation, therefore, I oppose it.

Remember Edith Weiner's analogy of the airplane. We are flying it. You're not flying it for yourself, you're flying it for all the passengers on board.

If you slam the door on people that want to get on and have seats as specialists, we're telling them to go fly another airline.

Thank you.

(Applause.)

CHAIRMAN COHEN: Jim.

MR. JAMES CASTELLANO: I'm James Castellano from Missouri and Chairman of the AICPA Management of an Accounting Practice Committee.

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I just wanted to make one point to emphasize the significance of the letters that Melinda had disclosed to you in her remarks.

The MAP Committee is representative of a broad diverse membership of the Institute: fifteen members, five small firm members including three sole practitioners, five mid-size members and five Group B size members.

Recognizing the significance of this issue, we met jointly with the Small Firm Advocacy Committee which represents small firms and unanimously supported this proposal on behalf of our constituency.

And I think it is also significant that I am a member of the PCP Executive Committee and that Committee as well endorses this proposal.

We think you have done a great job. You have listened. There were some concerns about the hour requirement which you dealt with very effectively and we think you have done a great job and support it.

Thank you.

CHAIRMAN COHEN: Thank you, Jim.

(Applause.)

CHAIRMAN COHEN: Yes.

MR. ALAN ROTHSTEIN: My name is

2 Alan Rothstein. I'm from Connecticut. I'm on the Board
3 of Governors of the State Society. I am also active in
4 the Personal Financial Specialists program at the
5 AICPA.

6 I strongly support accreditation. I
7 don't understand why we are having this kind of
8 discussion. We are all CPAs and we are looking to
9 further ourselves to really show the general public
10 that we are CPAs and we can take additional courses,
11 additional training, to become accredited to really
12 keep ourselves as specialists.

13 Accreditation has helped me further
14 myself and develop a reputation as a Personal
15 Financial Specialist. Others CPAs use our firm for
16 advice because they know we specialize.

17 And I'm very proud when a client
18 comes to my office and says: "Well, are you -- who
19 told you you can do financial planning?" and I'm very
20 proud to say that I'm accredited by the AICPA to
21 provide financial planning services.

22 And I think we need to have that
23 kind of outlook going forward.

24 CHAIRMAN COHEN: Thank you.

25 (Applause.)

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CHAIRMAN COHEN: Yes.

MR. BILL GOLDBERG: Hello! I'm Bill Goldberg of Texas. I'm the incoming Chair of the Personal Financial Planning Committee. I've been a Personal Financial Specialist since 1990.

I'm here to speak in favor of the accreditation with two quick points.

One, small firm versus big firm; Personal Financial Specialist membership right now, about ten percent Big Six, ninety percent small firm or sole practitioner. I think that answers that question.

The other issue is that this is not an internal CPA issue. This is a marketplace issue.

The marketplace is looking for specialists. If the AICPA does not want to represent its membership that wants to practice in specialties, there are lots of other organizations that will.

I was part of this discussion for the PFS ten years ago. I'm pleased to be part of it today.

The marketplace is moving. The question is whether the Institute wants to move with it.

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Thank you.

CHAIRMAN COHEN: Thank you.

(Applause.)

CHAIRMAN COHEN: Yes.

MR. LEROY STRUBERG: My name is Leroy Struberg. I'm the newly elected President of the National Society of Accountants.

We were the National Society of Public Accountants and we eliminated and changed our name to the National Society of Accountants to try to eliminate confusion.

Also we have an accreditation program. And it's called the Accredited Business Accountant.

And I'm just afraid that it's going to create confusion out there in the marketplace.

I know that the Internal Revenue Service eliminated the word "certified" because they did not want confusion.

I am totally in support of it, of what you all are doing. I have been an advocate of that for years.

But I am just questioning the word "accreditation."

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Thank you very much.

CHAIRMAN COHEN: Thank you.

Ed.

COUNCIL MEMBER ED SUMMERS: I'm Ed Summers, outgoing Council from Texas.

I'm in favor of this proposal in spite of the risks that some say it has.

Sometimes the function of leadership is to take risks.

I think that if two hundred and thirty years ago the Continental Congress had decided not to issue the Declaration of Independence that followed the outcome of the Revolutionary War, we might all still be wearing white wigs and addressing each other as the Right Honorable so-and-so.

I hope we act differently today.

Thank you.

(Applause.)

CHAIRMAN COHEN: The Right Honorable Ellen Feaver.

MS. ELLEN FEAVER: I'm Ellen Feaver, former Member of the Board of Directors and a member of the Task Force that brought the accreditation process to the Council that was approved

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by the Council.

My purpose in coming today is to say in part that it seems to me like once this rigorous process was established and somebody has jumped through all of the hoops that we have required, that their work should be honored and that we should approve the accreditation they are seeking.

I'm from Helena, Montana and even in Helena, Montana, being a specialist counts.

I am very surprised at how often my clients ask me about specialty designations that they've seen that others have.

And I believe that in providing the experience requirement as a number of engagements as opposed to hours, that the Committee and Board thought outside-the-box and have come up with a stronger solution that is a very good one.

I urge you to vote favorably on this proposal.

CHAIRMAN COHEN: Thank you, Ellen.

(Applause.)

CHAIRMAN COHEN: Gordon.

MR. GORDON SCHERER: I'm Gordon Scherer, President of the Pennsylvania Institute of

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Certified Public Accountants.

I just wanted to share with Council a recent experience that I had in Pennsylvania. A little over two weeks ago I met with the managing partners of firms in Pennsylvania in three different geographic locations to discuss various issues, one of which was to advise them of this matter.

And there was a small minority who offered concern about the accreditation and didn't feel it was appropriate. But the majority were very comfortable with moving forward on this.

CHAIRMAN COHEN: Thank you.

(Applause.)

CHAIRMAN COHEN: Debbie.

MS. DEBORAH WALKER: Debbie Walker, Chair of the Tax Division Executive Committee.

And I wanted to share with the group a little bit of some of the reasoning that the Tax Division went through in examining this proposal.

Obviously, we are very concerned about it because so much tax work is related to business valuation.

We are convinced that we will be fully involved as will all interested groups in the

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implementation, deciding what CPE is required,

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deciding on credentials, helping with the examination.

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We voted on October 8th to support

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this and recommend that you also approve it.

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We look forward to working with the

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Credential Committee and the Examination Committee to

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make this a worthwhile program for all CPAs.

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Thank you.

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(Applause.)

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CHAIRMAN COHEN: We have two more

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speakers.

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MR. MARK SUKOVNER: Mark Sukovner

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from Illinois. I'm not part of the Council, but I do

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have an opinion on this.

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And, basically, specialization I

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think is needed. It has been needed for some time.

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The CPA designation has been a

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symbol of excellence all across the country and it is

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something that we should continue to have.

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I believe by putting out specific

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designations within the body of the CPA, we are going

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to water that down and not give us an ability to say,

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"Are you a CPA?" "Yes, I'm a CPA, plus or non plus."

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If you go into an IRS audit and you

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2 don't have this designation, does that mean that you
3 are less qualified at some point in time?

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5 I think that we do have specialists
6 out there. The CBA from NACVA is an excellent program
7 that has been available to us. I think that is
8 something that is out there and available that
9 everybody who wants to specialize can adopt and
10 enhance the CPA designation, not so much watering down
11 the CPA body in its own members, but enhancing it with
12 outside activities.

12

CHAIRMAN COHEN: Thank you.

13

Myra.

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15 COUNCIL MEMBER MYRA SWICK: Myra
16 Swick, Council Member from Illinois.

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18 This is neither pro nor con, but a
19 request that you keep in mind.

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24 As I hear this discussion, as I hear
25 the arguments, you are talking about standards being
important and the AICPA position in setting standards.
We heard it in the Business Valuation arguments. We
also heard reference to it yesterday in the ElderCare
issue that there will be standards set.

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As a member of this organization, as
a member of this profession, I am proud to have

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supported its standards. I don't see any way, whether I have an accreditation or not, if I do any valuation work and this organization has set standards, that I cannot abide by those standards.

So I just ask as you go forward, if this is approved, that you keep in mind that you are binding every member of this organization.

Thank you.

CHAIRMAN COHEN: Thank you, Myra.

And thank you to all of you who expressed opinions. I think we've had a very wide ranging and open discussion as it should be.

We are running about twenty-five minutes late and we have a problem in that we must vacate this room promptly at four o'clock because the hotel has another event here.

We can make up some of that time, but I just wanted you to know that we are going to have to move rather quickly in the rest of our agenda.

At this point, there being no further discussion, we will take a vote on the motion as I previously read it.

Does anybody need to have that motion reread?

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(No response.)

CHAIRMAN COHEN: Let me remind you, and we let all of you self-police this. We are going to take a voice vote initially at least, and those people who are eligible to vote are only those people wearing green or white badges. I think that's correct.

COUNCIL MEMBERS: No.

CHAIRMAN COHEN: Let me explain it another way because I don't know what other color than green.

It's only those continuing members of Council and outgoing members of Council. And it does not include incoming members of Council, Committee Chairmen, other AICPA members and guests. Okay?

Continuing members of Council and outgoing members of Council.

All those in favor of the motion to establish a BV accreditation, please signify by saying "aye."

(Chorus of "ayes.")

CHAIRMAN COHEN: Those opposed, same sign.

(Scattered "ayes.")

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2 CHAIRMAN COHEN: The "ayes" have
3 it.

4 (Applause.)

5 CHAIRMAN COHEN: Let me say to Ed
6 and Melinda, I know how hard they worked on this for a
7 number of years and you've done an outstanding job of
8 presenting the case.

9 We will now take a ten-minute break.
10 Ten minutes. Be back here promptly at 11:20.

11 (Which were all the proceedings at
12 the Fifth Session of Council which concluded at 11:10
13 o'clock a.m.)

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S I X T H S E S S I O N

Saturday, October 19, 1996

11:25 a.m.

CHAIRMAN COHEN: Please take your seats.

Now we ask Olivia Kirtley, who is the Chairman of our Finance Committee, to give us her report on the Financial Statements for the year ended July 31, 1996 and other matters that are on the plate of the Institute's Finance Committee.

Olivia.

MS. KIRTLEY: I will do this quickly. This will not be nearly as exciting as the other discussions that we have had come before this Council today, nor will I be nearly as entertaining as Curt Mingle. And I understand we are behind time.

So I'm going to move through this quickly and I may skip over a couple of the slides that we had prepared in the interest of time.

All of this information was mailed to you prior to the Council Meeting. I trust you've had an opportunity to review that.

The annual reports that were promised to you were laid out on the table and I trust

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that you were able to obtain a copy of that. If not, I'm sure that if you'll see someone at the registration table, they will be able to assist you in obtaining one.

Our report this morning will be two-fold.

First of all, I will go over the highlights of the 1996 fiscal year results, and then secondly, I will briefly review the 1997 budget, primarily for the benefit of the incoming Council Members. This budget was approved at our May Council Meeting.

If anyone has any questions regarding any of the material that was distributed or anything that is presented here today, I'll be more than happy to take those questions at the end of the presentation.

But the bulk of my presentation will concentrate on the results of the AICPA only. I'm sure you know that in the material that was sent to you that the annual report contains for the first time combined financial statements. These statements included the results of the AICPA along with the AICPA Foundation, the AICPA Benevolent Fund and the

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Accounting Research Association.

These financial results have been combined in accordance with the reporting requirements set forth in Statement of Position 94-3 which is reporting of related entities for not-for-profit organizations.

Now I would like to review the recent financial results for the AICPA only.

The prior four years, as you can see, reflect a positive trend that has helped us move towards our goal of building a fund balance of twenty/twenty-five percent of annual revenues.

In 1995 the excess of revenues over expenses was \$6.3 million.

In 1996 the excess of revenues before the cumulative effect of changes in accounting principles was \$5.3 million.

At the Spring Council meeting I told you that the final decision had not yet been made concerning the adoption of the Statement of Financial Accounting Standards 106, which is the employer's accounting for post-retirement benefits other than pensions, and 124, accounting for certain investments held for not-for-profit organizations.

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It was subsequently decided to adopt both of these pronouncements and this resulted in a one-time charge of \$4.7 million.

The bottomline after this accounting change for 1996 was \$537,000.

In addition, there are other changes in the financial statements from the prior year as the Institute has also adopted Statement of Financial Accounting Standards No. 116, accounting for contributions received and contributions made, and 117, financial statements of not-for-profit organizations.

As you can see, the fund balance has increased over the past few years to more than \$23 million at the end of this fiscal year.

Because any operation must be supported by a sufficient capital base, the Board approved a policy that was adopted in 1988 stating that the fund balance goal should be twenty to twenty-five percent of the total annual revenue.

The fund balance as of the end of July 31, 1996 represents eighteen percent of total annual revenue. We continue to move closer to achieving our goal even after reflecting the

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cumulative effect of the changes in accounting principles.

The budget for 1997 will continue this trend.

So how did we do compared to the budget for fiscal '96 and the forecast presented to you at the May '96 Council meeting?

The 1996 budget called for an excess of revenue over expenses of \$3 million. The forecast we presented to you at Council was \$3.6 million of excess revenue over expenses, again prior to reflecting any change in accounting methods. And the actual came in at \$5.3 million.

The primary components of the favorable variances were unanticipated increases in investment income, the Affinity Program income and the sale of the IPS Engagement Manuals.

You received quite a bit of statistical information in your handout. I was going to go over some highlights from this, but in the interest of time I'm going to move forward to review the highlights of the 1997 budget.

I would point out one thing on the statistical highlights that you have.

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2 The ratio of members to staff this
3 year was 486 to 1, which was an improvement over the
4 prior year of 479 to 1.

5 I think this trend reflects some of
6 the changes that have been made at the AICPA through
7 restructuring and the continuous improvement process.
8 And the AICPA is to be congratulated for their
9 progress in this area. And I'm sure that they will
10 continue to make these improvements as we go forward.

11 I would like to briefly review the
12 '97 budget.

13 The budget for fiscal 1997 plans for
14 an excess of revenue over expenses of \$2 million as
15 compared to the prior year result of \$5.3 million
16 before the accounting changes.

17 The budget for '97 was developed
18 with several goals and several assumptions in mind.

19 One of the primary reasons for going
20 from the \$5.3 down to the \$2 million was we do not
21 anticipate the investment income to be at the same
22 levels it was for 1996 and we are reflecting that in
23 the budget to return it to more historical levels.

24 This budget's major components also
25 include no dues increase - this is for the third year

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in a row - limited price increases in products and services, careful monitoring of salary expenses, increased market research to learn more about our current members' needs.

Other major initiatives and new initiatives in this budget include:

The Internet Website project;
Capital expenditure emphasis on Operation ACCESS, which is the AICPA's long-term technology plan, in order to better serve our members and to provide a one-stop shopping approach to member contact at the Institute;

Continuous process improvement of all the Institute operations - there are cost savings projected in this budget;

\$75,000 contribution to the Financial Accounting Foundation to support the work of the Government Accounting Standards Board;

An increase of \$500,000 to the Image Enhancement Campaign. This will bring the budget in '97 for the Image Enhancement Campaign to \$3.5 million and it will include a plan for ongoing audit of the campaign's effectiveness.

The budget also provides for \$1

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2 million for unbudgeted projects. I think you can see
3 that everything that has come before this Council in
4 the last two days, that the profession is moving
5 quickly, it's fast paced, we cannot always anticipate
6 what funds will be needed for going forward in the
7 budget. And we think that it is prudent, based on
8 history and based on what all we have going on today,
9 to put a \$1 million reserve in there for budget
10 projects.

11 However, anything that is used out
12 of this particular reserve does have to come back to
13 the Finance Committee and has to be approved on an
14 item by item basis. So this is not just a bucket out
15 there to be used by the staff. It is carefully
16 monitored and updated at the Finance Committee
17 meetings.

18 The capital budget for next year is
19 \$3.3 million. You can see that the substantial
20 emphasis of the capital budget is on Operation ACCESS
21 and on technology. This is about the level that our
22 capital budget always runs, about two-and-a-half
23 percent of revenues, but we are shifting emphasis to
24 the Operation ACCESS.

25 I'll be delighted to take any

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questions at this time.

CHAIRMAN COHEN: Any questions?

(No response.)

CHAIRMAN COHEN: Okay. If not,
thank you very much, Olivia, for your report.

(Applause.)

CHAIRMAN COHEN: I would be remiss
if I didn't say that Olivia has done just an
outstanding job as Chair of the Finance Committee this
year.

It's a very important a very time-
consuming job and we're very fortunate to have her
back again next year.

Olivia, thank you very much.

The next item on the agenda is the
approval of the May 1996 Spring Council minutes.

They have been distributed to you.

May I have a motion to approve those
minutes?

A COUNCIL MEMBER: So moved.

CHAIRMAN COHEN: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRMAN COHEN: Any discussion?

(No response.)

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2 CHAIRMAN COHEN: Those in favor of
3 the adoption of the minutes, please signify by saying
4 "aye."

5 (Chorus of "ayes.")

6 CHAIRMAN COHEN: Those opposed
7 "nay."

8 (No response.)

9 CHAIRMAN COHEN: The minutes are
10 approved.

11 Before moving on to the Report of
12 the Nominating Committee, while I still have the power
13 of the gavel, I want to take a few minutes to reflect
14 on the past year which has really flown by.

15 And I've changed the microphone here
16 to confuse any of you who might have had me in your
17 sights during another part of the meeting.

18 When I spoke to you last upon
19 assuming my position as Chair, I said I would set my
20 sights not only on what can be accomplished in one
21 year but what we needed to do today, now, to make sure
22 that the long-term future of our profession survives
23 change and enables us to retain our stature and our
24 importance.

25 And it's hard for me to measure what

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2 progress that we've made given such a dynamic
3 environment in which we CPAs live today and
4 particularly in such a short timeframe as a year.

5

6 You heard me in the past year
7 continually emphasize the need for change in our
8 profession. And you heard it from Bob Elliott and
9 you've heard it from Bill Gates, you've heard it from
10 Barry, you've heard it from Edie Weiner and Curt
11 Mingle.

11

12 I have also attempted to convince
13 our members that change is good. It provides us
14 opportunities, growth, for each one of us and we've
15 got to embrace it and keep ahead of it.

15

16 My fear is, however, that still too
17 many of us CPAs feel that we as profession are immune
18 from the turmoil of change that completely surrounds
19 us.

19

20 Dealing with change isn't easy. All
21 of us know that. We all have certain fears about the
22 future and we all find great comfort in how we
23 operated yesterday and even today.

23

24 I'm not a futurist but I'm
25 absolutely convinced that the future that we face is
going to be radically different than what we have

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2 become accustomed to and that it's virtually
3 impossible for us to accurately predict.

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5 All of us as leaders of this great
6 profession have the responsibility today to act to
7 preserve what our predecessors have created.

8

9 It's our responsibility to move our
10 profession forward with vision, with innovation, with
11 knowledge and to be prepared for whatever changes
12 descend upon us.

13

14 This responsibility, which is ours,
15 involves the need to take risks, the need to make
16 decisions, decisions that will not be unanimous,
17 perhaps even popular, and the need certainly to move
18 more quickly than we have in the past.

19

20 If you look back, practically every
21 change with which each one of us has had to deal with
22 in our lives has brought us personal growth and
23 greater opportunities and greater personal
24 satisfaction.

25

26 And that's how we've got to approach
27 the changes of the future - positively, aggressively,
28 and opportunistically.

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30 You know, we accountants are often
31 described as being overly conservative. And I recently

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2 came across a great definition of a conservative,
3 which I've shared with some of you. That definition
4 is, a conservative is someone who believes in
5 progress, in change and in innovation, but not yet.

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We can no longer live by that
definition.

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We need to move now boldly and
creatively, not kicking and screaming, into the
twenty-first century.

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As Edie Weiner said, and it's been
mentioned a couple of times this morning - I promise
you that I won't use this analogy again but it's such
a good one - whether you sit on the right or the left
side of the plane, that is, looking to the future or
wanting to stay put, the plane is moving forward, and
furthermore, it's moving forward at a speed that is
accelerating.

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We have during the past year
accomplished, I think, a great deal working to make
our futures brighter.

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We've had Federal tort reform
legislation passed.

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We raised our image in the eyes of
key decisionmakers.

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2 We've modernized the functioning of
3 the Institute.

4 We've increased our technological
5 awareness and capabilities. And we've got the
6 strategic initiative going with Microsoft to add to
7 that.

8 We've worked hard to bring the
9 regulation and structure of our profession into the
10 modern age.

11 We've created a provocative view of
12 the future services that CPAs will provide through the
13 Assurance Services Committee.

14 And I think we've reinforced our
15 commitment to the public interest.

16 But with all of this progress and
17 with all of our successes, I am not convinced that we
18 have been able to keep up with the pace of change
19 around us. Critical, complex, new issues keep
20 surfacing at an ever-increasing rate and seemingly
21 faster than we can address and solve existing issues.

22 We need to address all of these
23 issues with a sense of urgency, with a sense of mutual
24 trust, with vision, with flexibility and without
25 relying very heavily on our past successes.

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We must keep control of our future destiny and not let others, whether they are from the public or the private sector, create or unduly influence our future for us.

We CPAs have all the tools needed to do this. All we've got to do is accept the responsibility.

And there is a popular ad that exhorts us "Just do it."

John F. Kennedy said once that there are risks and costs to a program of action, but they are far less in the long range of risks and costs of comfortable inaction.

And I think that holds true for us.

Personally, it has been a great year, certainly extremely worthwhile, challenging and I thoroughly enjoyed practically every minute of it.

(Laughter.)

CHAIRMAN COHEN: I have to be honest now.

I've had really tremendous support from the Institute staff, from the Board, a great Board, Council, membership, State Society Executives and from two other people who I think I need to single

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out particularly.

First of all, Barry Melancon. You know, this is his first full year on the job. And it would be very easy to have a Chair that had to put up with an executive, CEO, who really didn't have his feet on the ground that soon after joining us.

But let me tell you that Barry has hit the ground running. He's done an outstanding job of grabbing a hold of all of the issues that we face with energy, with initiative and particularly with the vision of where this profession needs to go.

And I think -- I don't know where Barry is. Is he here? In the back.

(Applause.)

CHAIRMAN COHEN: And he has really made my job much easier.

And one other person also that I think needs special attention, and that is, my wife, Nancy, who is sitting right over here. I know she's not going to like this, but I would like her to stand as well.

(Applause.)

CHAIRMAN COHEN: That's my managing partner for the past thirty-six years. And she has

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done more travelling I think than she ever dreamed of this year and had to share my bed most of the time when I wasn't in it at home.

(Laughter.)

CHAIRMAN COHEN: And really without me feeling very much guilt at least.

Finally, nothing really can make me feel better about leaving this position - and it's not easy to do - than turning over the reigns to someone so capable, so progressive and so committed to keeping our momentum going - I think we've got a lot of momentum at this point - as the person that you are about to elect as our new Chair. And I won't mention his name because it will be coming up here very shortly.

(Laughter.)

CHAIRMAN COHEN: But, again, I thank all of you. It's been a great year. And we've got, I think, a lot more great years ahead of us.

(Applause.)

CHAIRMAN COHEN: Next, we go to the Report of the AICPA Nominations Committee and the election and installation of our Council.

We have now concluded the work --

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2 no, I guess we haven't concluded the work of the old
3 Council yet. We have one more task to do.

4 And I am going to bring to the
5 podium the Chairman of our Nominations Committee and
6 someone who needs no introduction, but I'm certain
7 would like one, Bob Israeloff.

8 (Laughter.)

9 MR. BOB ISRAELOFF: You old rascal
10 you.

11 The AICPA Nominations Committee was
12 elected last year by Council in Palm Springs. In
13 addition to myself, the members of the Committee are:

14 Mike Azorsky, Kansas City, Missouri,
15 Karen Hooks, Fort Lauderdale,
16 Florida,

17 Stu Kart, Sherman Oaks, California,
18 Herb Lerner, Washington, D.C.,
19 Pat Wilson, San Antonio, Texas,
20 Gayl Doster, Providence, Rhode

21 Island,

22 Art Farber, Chicago, Illinois,
23 Caroline Garfield, Waterbury Center,
24 Vermont,

25 Jay Kubik, Wichita, Kansas,

1
2 Zeke Montgomery, Columbia, South
3 Carolina.

4 The Committee held a meeting in New
5 York on February 29, 1996, in accordance with the by-
6 laws, and then published a report of the decisions
7 reached at that meeting in The CPA Letter.

8 If you will all now turn to Item 12
9 in your agenda materials, this is the beige-colored
10 sheet captioned "Report of the Nominations Committee."
11 You will need it in order to follow me as I make this
12 presentation.

13 As you know, each of the fifty-four
14 jurisdictions has one representative on Council
15 designated by the State Society. The appointment of
16 the State representatives does not require action by
17 the Council.

18 The Committee's Report includes a
19 reminder that independent nominations for officers,
20 members of the Board of Directors and Council Members
21 at large may be made by any twenty members of Council,
22 and independent nominations for Council may be made by
23 any twenty Institute members from a given State, if
24 filed with the Secretary at least four months prior to
25 this annual meeting.

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The Secretary received no such nominations.

The Report also quotes the by-law provision that no nominations from the floor will be recognized.

In addition to Members of Council representing States, the by-laws provide for twenty-one Council Members at large, selected on the basis of their national contributions to the profession. Each year seven Institute members are selected to serve three-year terms.

The Report of the Nominations Committee of February 29, 1996 reflects that the Nominations Committee this year has chosen the following members for election as Council Members at large for three-year terms:

Gila Bronner, Illinois,
Richard Kearns, New York,
Wanda Lorenz, Texas,
Kenneth Paige, Pennsylvania,
Richard Piluso, New York,
Eric Schindler, Washington,
Jimmy Williamson, Alabama.

In addition, Susan W. Kline had been

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nominated to serve the unexpired term of Michael P. Bohan, member-at-large, with a term ending in 1997.

The Nominations Committee, though, will be nominating Susan Kline for the Board of Directors for a term ending in 1999 a little later in this Report.

Consequently, the Nominations Committee is nominating Deborah Walker of Washington, D.C. as Council Member-at-large to complete Susan W. Kline's at-large term on Council which ends October, '97.

Mr. Chairman, I nominate the persons proposed by the Nominations Committee as listed in its Report of February 29, 1996 for a three-year term as Council Members-at-large ending in 1999, and Deborah Walker to replace Susan Kline for a term ending in October, 1997, and move their election on unanimous ballot.

CHAIRMAN COHEN: Is there a second to that motion?

A COUNCIL MEMBER: Second.

CHAIRMAN COHEN: Any objections?

(No response.)

CHAIRMAN COHEN: Hearing none, the

1
2 motion is unanimously passed and the new elected
3 Council Members-at-large are officially in office.

4 Would our new Council Members-at-
5 large stand so that we can appropriately recognize and
6 congratulate you?

7 (Applause.)

8 MR. BOB ISRAELOFF: In accordance
9 with long-established procedure, and in compliance
10 with the by-laws, each State was asked to submit names
11 to fill Council vacancies arising in its
12 representation this year.

13 The Committee gave due consideration
14 to the names submitted and made its nominations for
15 directly elected Members of Council.

16 Notice of its nominations was
17 published in the April CPA Letter.

18 The Nominations Committee does give
19 great weight to submissions from State CPA Societies
20 for Council vacancies, but is not bound by them.

21 Continuing with filling Council
22 vacancies, there will be a New York seat open since
23 Stuart Kessler will be nominated by the Nominations
24 Committee to be Vice Chair of the Board of Directions
25 for '96-'97.

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The New York State Society has submitted the name of Barry Seidel to complete the term of Stuart Kessler of New York ending in October, 1997.

Also, later in the Report the Nominations Committee will nominate Jerry Esselstein to the Board of Directors for a period 1996 to 1999. The Ohio Society of CPAs substituted the name of Marrion S. Heflin to complete the term of Jerry Esselstein ending in October 1998.

Subsequent to the meeting of the Nominations Committee, the Alabama Society of CPAs submitted the names of David P. Kassouf and Don L. Machen as its directly elected representatives to Council.

Mr. Chairman, I move the election of all those proposed for Council vacancies.

CHAIRMAN COHEN: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRMAN COHEN: Are there any objections?

(No response.)

CHAIRMAN COHEN: If not, these members are duly elected.

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2 Again, I would ask them to rise to
3 be recognized.

4 (Applause.)

5 MR. BOB ISRAELOFF: The old Council
6 is now dissolved and only members of the new Council -
7 and I'm not going to go into the color of badges - may
8 vote in the following election.

9 For Members of the Board of
10 Directors the Nominations Committee has selected the
11 following for a three-year term ending in 1999:

12 James Castellano, Missouri,
13 Jerry Esselstein, Ohio,
14 Dan Hanke, Texas,
15 Susan Kline, Indiana,
16 Robert Petersen, California, and
17 Paul Kolton from Connecticut as a
18 public member.

19 Mr. Chairman, I nominate these
20 individuals and move their election on a unanimous
21 ballot.

22 CHAIRMAN COHEN: Do we have a
23 second?

24 A COUNCIL MEMBER: Second.

25 CHAIRMAN COHEN: Any objection?

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(No response.)

CHAIRMAN COHEN: If not, the motion is unanimously passed.

And, again, I would ask the new members of the Board to stand to be congratulated.

(Applause.)

MR. BOB ISRAELOFF: Mr. Chairman, speaking for the Committee I now propose with great personal affection and satisfaction the election of Stuart Kessler of New York as Vice Chair of the Board for 1996-1997.

CHAIRMAN COHEN: Is there a second?

A COUNCIL MEMBER: Second.

MR. BOB ISRAELOFF: That sounded like Stuart.

(Laughter.)

CHAIRMAN COHEN: Are there any objections?

(No response.)

CHAIRMAN COHEN: If not, Stuart Kessler is unanimously elected Vice Chair of the Board.

Congratulations.

(Applause.)

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2 MR. BOB ISRAELOFF: For Chair of
3 the Board for the coming year, the full Committee
4 joins me in nominating Bob Mednick of Illinois.

5 The Committee also joins in
6 requesting that a unanimous ballot be cast for his
7 election.

8 CHAIRMAN COHEN: Is there a second?

9 A COUNCIL MEMBER: Second.

10 CHAIRMAN COHEN: Any objections?

11 (No response.)

12 CHAIRMAN COHEN: If not, Bob
13 Mednick is hereby unanimously elected Chair of the
14 Board.

15 (Applause.)

16 CHAIRMAN COHEN: It's customary
17 that the new Chair, in case he gets a little weak-
18 kneed, be escorted by two ex-Chairmen of the Board.

19 Bob, congratulations.

20 VICE CHAIR MEDNICK: You know, this
21 is in some sense overwhelming. As you know, it's not
22 unexpected.

23 (Laughter.)

24 VICE CHAIR MEDNICK: You know, I've
25 been to probably at least ten Council meetings and I

1

2 do not recall ever having felt the energy level, the
3 positive energy level, that has existed here in the
4 past day-and-a-half.

5

6 And I think we need to one more time
7 recognize where that comes from. It is the leadership
8 of Barry Melancon and it is clearly the leadership of
9 Ron Cohen.

10

11 And I have very, very big shoes to
12 fill.

13

14 I'm not going to make any long
15 remarks, Bob, because if I do, I won't get a chance to
16 do it later and I'm scheduled to speak to you after
17 lunch.

18

19 So I'm going to hold the remarks.
20 But I do want you to know what a honor and privilege
21 it is for me to serve as Chairman of the Board. It is
22 something that I take very seriously. I assure you
23 that I will do everything in my power over the next
24 twelve months to uphold the image and reputation of
25 just a great profession.

26

27 Thank you again.

28

29 (Applause.)

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31 MR. BOB ISRAELOFF: We have two
32 other groups to be elected.

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Let me begin with the Joint Trial Board.

The Committee proposes the slate for election to fill twelve vacancies on the Joint Trial Board after contacting the States concerned.

Their names appear on the second page in Item 12 and I move the election of all except for the gentleman from Virginia who, unfortunately, has passed away from the time of the Nominations Report to today. And, therefore, we are nominating the other names other than the gentleman from Virginia, and there will be a substitute nominated in the future.

CHAIRMAN COHEN: Is there a second?

A COUNCIL MEMBER: Second.

CHAIRMAN COHEN: Any objections?

(No response.)

CHAIRMAN COHEN: If not, the nominated members of the Joint Trial Board are hereby elected.

MR. BOB ISRAELOFF: Finally, the Committee is pleased to endorse the slate for election to the Peer Review Board found on page two of the Committee's Report, Item 12.

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2 I move the entire slate as shown on
3 the Report of the Nominations Committee of February
4 29, 1996.

5 CHAIRMAN COHEN: Is there a second?

6 A COUNCIL MEMBER: Second.

7 CHAIRMAN COHEN: Any objections?

8 (No response.)

9 CHAIRMAN COHEN: The Peer Review
10 Board is hereby elected.

11 And that concludes the Report of the
12 Nominations Committee. Thank you very much, Mr.
13 Israeloff, for doing a great job.

14 (Applause.)

15 CHAIRMAN COHEN: Council adopted
16 resolutions in May of 1991 which provide that the
17 Nominations Committee should be chaired by the
18 Immediate Past Chair of the Board and should consist
19 of ten additional members serving staggered two-year
20 terms.

21 No more than seven members of the
22 Nominations Committee should be Members of Council and
23 no one, except the Chair, should be a member of the
24 Board of Directors.

25 Other nominations from the floor are

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permitted.

In selecting candidates for the Committee, the Board has given consideration to having a geographically representative group, consisting of members who represent various points of view, and are well acquainted with people who may be recommended for office and who practice their profession in industry and academe, and who, if in public practice, are affiliated with firms of varying size.

The full slate of nominees, all of whom have been active in their respective State Societies and the work of the Institute, was developed by the Board of Directors at its meeting in July 1996 and it is included in your material as Item 12.

There are five holdover members who were previously elected for a term ending next year, in 1997. They are:

Michael Azorsky from Missouri,
Karen Hooks, Florida,
Stuart Kart from California,
Herb Lerner from the District of
Columbia, and

Pat Wilson from Texas.

The Board recommends the election of

1
2 the following five members for a two-year term
3 expiring in 1998. They are:

4 Miguel Cabrera from Florida,
5 Denise Devine from Pennsylvania,
6 Kenneth Hull from Illinois,
7 Allen Poole from Georgia,
8 and Judy Trepeck from Michigan.

9 And for me to serve as the Chair of
10 the Nominations Committee.

11 In addition to myself, Miguel
12 Cabrera, Denise Devine and Pat Wilson are members of
13 the 1996-'97 Council.

14 Do I have a motion to nominate these
15 members?

16 A COUNCIL MEMBER: So move.

17 CHAIRMAN COHEN: Is there a second?

18 A COUNCIL MEMBER: Second.

19 CHAIRMAN COHEN: Are there other
20 nominations?

21 (No response.)

22 CHAIRMAN COHEN: If not, I declare
23 the nominations closed and we will vote by voice.

24 May I remind you, again, that it's
25 the 1996-'97 Council that is eligible to vote.

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2 Those of you who are in favor of the
3 slate that I just read, signify by saying "aye."

4 (Chorus of "ayes.")

5 CHAIRMAN COHEN: Any opposed?

6 (No response.)

7 CHAIRMAN COHEN: The "ayes" have
8 it.

9 The next item on our agenda is the
10 election of auditors for the AICPA and its
11 subsidiaries for the coming year.

12 The by-laws provide that Council
13 should annually arrange for an independent audit and
14 we are obligated, therefore, to elect a firm of
15 auditors.

16 And I might add, I just looked at my
17 watch, we are back on time. Amazing.

18 I would like to ask Paul Kolton, a
19 public member of our Board and the Chair of the
20 Board's Audit Committee, to give you the Report of the
21 Audit Committee on the process that it utilized in our
22 recommendation for auditors for 1996-1997.

23 Paul.

24 MR. PAUL KOLTON: Thank you, Ron.

25 The Audit Committee unanimously,

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along with the Board, recommends the reappointment of J. H. Cohn & Co. for the forthcoming fiscal year.

I might say that earlier in the year it seemed appropriate for the Institute for the first time in a ten-year period to undertaken a full scale search for the auditor in view of the fact that the Institute's management was also examining its various relationships with outside vendors and sources.

At the conclusion of a series of interviews, presentations and letters that responded to detailed questions that the Audit Committee raised, the Audit Committee, as I've indicated, unanimously recommended the reappointment of J. H. Cohn & Co.

To that extent I would ask this group of Council Members for a motion to that effect and a second.

A COUNCIL MEMBER: So move.

A COUNCIL MEMBER: Second.

MR. PAUL KOLTON: Thank you very much.

All in favor?

(Chorus of "ayes.")

MR. PAUL KOLTON: Opposed?

(No response.)

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MR. PAUL KOLTON: So ordered.

And, again, thank you.

(Applause.)

CHAIRMAN COHEN: Thank you, Paul. I wish I could have run the process a little faster like that this morning.

(Laughter.)

CHAIRMAN COHEN: And, incidentally, Paul Kolton, as you know, is a public member of our Board. He was just reelected and really has just done an outstanding job, not only as Chairman of the Audit Committee, which is also a very important and time-consuming job, but in terms of the counsel and participation that the Board receives from Paul. It is just very, very valuable to all of our deliberations.

Thank you, Paul, very much.

(Applause.)

CHAIRMAN COHEN: Before we break for lunch, I would like to remind Members of Council that the Spring Meeting of Council will be held in conjunction with the Key Persons Conference in Washington. That's going to be May 4-7 of next year.

And we will be asking all of you Council Members to make visits on Capitol Hill to

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members of Congress from your State.

As a matter of fact, you might as well start trying to set those up.

We think this is an extremely important effort and you'll be hearing from us in advance to coordinate and make sure that we've got these visits properly planned.

Lunch will now be served in the International Ballroom. This is on Level 2. That's a couple of levels up.

And please, since we are now ten minutes ahead of schedule, report back to this room at 1:45 to begin our Annual Members Meeting.

Thank you very much.

(Which were all the proceedings of the 1996 Fall Meeting of Council which concluded at 12:02 o'clock p.m.)

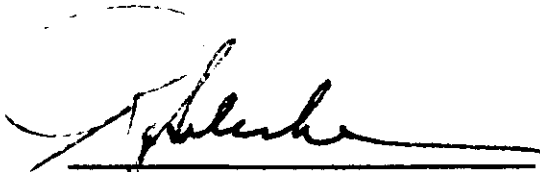
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STATE OF NEW YORK)
) SS.
COUNTY OF NEW YORK)

I, ROY A. SELENSKE, a Certified Shorthand
(Stenotype) Reporter and Notary Public within
and for the State of New York, do hereby certify
that the foregoing pages 1 through 439 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 4th day of November, 1996.



ROY A. SELENSKE, C.S.R.

* * *