streetwise

BY STEPHEN BARLAS, BRIAN PORTER, ROBERT RANDALL, DAWN SMITH, CURT VERSCHOOR, KATHY WILLIAMS

[NEWS]

Donald Nicolaisen Is New SEC Chief Accountant | Kathy Williams, Editor

DONALD T. NICOLAISEN, CPA, A SENIOR PARTNER AT PRICEWATERHOUSE-Coopers LLP, has been named chief accountant at the Securities & Exchange Commission. He will join the SEC late this month. Nicolaisen, 59, succeeds Robert Herdman, who resigned last November amid controversy leading to the selection of William Webster as then chairman of the Public Company Accounting Oversight Board (PCAOB).

As chief accountant, Nicolaisen will oversee the SEC's accounting policy initiatives and the Commission's efforts with national and international standard setters on critical accounting and auditing issues, including international convergence and efforts to adopt principles-based accounting standards. He will also work closely with the PCAOB to ensure that auditors adhere to the highest business and ethical standards.

Nicolaisen joined one of PwC's predecessors, Price Waterhouse, in 1967 and later helped lead its merger with Coopers & Lybrand to become PricewaterhouseCoopers. He also participated in the firm's decision to exit its consulting business. At present, he is the firm's engagement and global relationship partner for Prudential Financial, Inc.

Between 1988 and 1994, he led PW's national office for accounting and SEC services and was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB). He later chaired the firm's financial services practice for broker-dealers, investment banking, mutual funds, banking, insurance, and real estate.

SEC Chairman William H. Donaldson said, "Throughout his distinguished career, Don has been a powerful agent of change whose leadership has helped identify, build consensus around, and accomplish strategic objectives toward high-quality corporate financial reporting and disclosure. I am confident that Don's experience, expertise, and enthusiasm will greatly benefit the Commission and the investing public."

In accepting the position, Nicolaisen said, "This is a unique opportunity to make a real difference by fostering an environment where integrity and ethical behavior are paramount and by ensuring accountability and vigorous enforcement of the accounting and auditing rules….I look forward to advancing the Commission's agenda, which includes driving the changes necessary to ensure investor protection. And that means holding people accountable for their actions. I will enforce the law and demand that people act with integrity and ethics. As a regulator, I will ensure that investor interests are put above the interests of all others. Whatever amount of reform or action is needed toward that end is what I will work with the Commission to bring about…" ■

ANSWERING YOUR QUESTIONS

When you and your staff are working on a project or doing your regular job, do you suddenly get the urge to ask someone else a question to make sure what you're doing is correct or to corroborate your answer? Or maybe you want to check an accounting method or procedure?

If so, you might want to visit this Web address: www.novationsvms.com/fla/FLA/Frameset.asp?page=6. Chuck Kremer, senior business literacy consultant for Financial Literacy Advantage at Novations VMS, has compiled a list of frequently asked questions that pertain to finance and accounting and are geared for financial professionals and nonfinancial managers.

For more information, you can also contact Kremer at ckremer@novations.com. ■

READERS' INPUT

WELL-ROUNDED PUBLICATION

I have been in manufacturing accounting with *Fortune* 500 companies for almost 15 years and an IMA member for most of those years. I am currently controller at a small manufacturer.

I find *Strategic Finance* to be a very well-rounded publication that covers pertinent and technical articles on regulation while meeting other valuable needs. I have often shared *Strategic Finance* articles with operational and corporate management. The magazine offers me opportunities for professional development (not just in classroom settings), insights into best practices and what other successful corporations are doing, what operational managers are asking for in other organizations and how financial professionals are meeting those needs, emerging technologies and systems, cash management...etc., etc. I (and my managers) appreciate the insightful, informative, thorough articles that your staff makes available each month.

Dawn Smith
Controller
Power Monitors, Inc.

[ETHICS]

Eight Ethical Traits of a Healthy Organization

by Curtis C. Verschoor, CMA, Editor

MOST PEOPLE IN POSITIONS OF RESPONSIBILITY KNOW THAT A CODE OF ETHICS and corporate conduct is a legal requirement and thus give at least lip service to principles of good ethics in their business dealings. Yet sometimes they may have difficulty applying ethical principles to real-life situations or knowing whether ethical principles are really at work in their organization.

The following list of ethical traits of a healthy organization presumes that an organization has an inspiring, shared mission at its core and capable leadership. It is presented to help managers recognize the ethical implications of everyday business attitudes together with outcomes of alternative actions. The list and explanation come from www.ethix.org, the website of the Institute for Business, Technology, and Ethics.[1] My comments are in italics.

1. Openness and humility from top to bottom of the organization

Arrogance kills off learning and growth by blinding us to our own weaknesses. Strength comes out of receptivity and the willingness to learn from others. *Finance managers are in a strong position to facilitate this trait by functioning as consulting problem solvers rather than as just subservient financial messengers reporting what usually seems to be bad news to a dominating senior management.*

2. An environment of accountability and personal responsibility

Denial, blame, and excuses harden relationships and intensify conflict. Successful teams hold each other accountable and willingly accept personal responsibility. *Too many finance managers view their job as "fixing the blame" rather than helping to "fix the problem." The adage that internal auditors "appear on a battlefield after the battle is over to help bayonet the wounded" may have credence in ethically unhealthy organizations.*

3. Freedom for risk taking within appropriate limits

Both extremes—excessive, reckless risk taking and a stifling, fearful control—threaten any organization. Freedom to risk new ideas flourishes best within appropriate limits. *As active participants in an organization's risk-management process, finance managers can be very helpful in achieving this trait.*

4. A fierce commitment to "do it right"

Mediocrity is easy; excellence is hard work, and there are many temptations for shortcuts. A search for excellence always inspires both inside and outside an organization. *"Best-in class" finance organizations are continuously engaged in improving their practices.*

5. A willingness to tolerate and learn from mistakes

Punishing honest mistakes stifles creativity. Learning from mistakes encourages healthy experimentation and converts negatives into positives.

6. Unquestioned integrity and consistency

Dishonesty and inconsistency undermine trust. Organizations and relationships thrive on clarity, transparency, honesty, and reliable follow-

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[GOVERNMENT]

Bush Administration Chimes in on Pension Reform | Stephen Barlas, Editor

THE TREASURY DEPARTMENT added a little spice to the congressional debate on pension reform when it threw a controversial proposal into the legislative mix. I had previously mentioned in this space a bill (H.R. 1776) introduced in April by Reps. Benjamin Cardin (D.-Md.) and Rob Portman (R.-Ohio) that gives companies a formula for figuring out how much they need to kick into their pension plans each year. That formula used to be based on the interest paid on a 30-year Treasury note. Those notes are no longer sold, so a new calculation basis is needed. Underlying the debate is the feeling in both the union and corporate communities that something must be done to prevent more defined benefit plans from disappearing in this queasy economy. The Portman/Cardin proposal permanently replaces the 30-year Treasury bond rate with the rate of interest earned on a blend of conservative, long-term corporate bonds. Both corporations and unions seem to back that basis, although the Portman/Cardin bill has yet to come to a vote in either of the two House committees to which it was referred. The Treasury proposal made on July 8 lets companies use the Portman/Cardin formula for the first two years. During the next three years, however, corporations would gradually move to a rate along a corporate bond yield curve. Companies with large numbers of retirees and older workers on the cusp of retirement would have to use shorter-term, lower-yielding bonds, thus requiring them to put more money into their pension plans than other companies with younger workforces. Some mature industries might not like the Treasury proposal much, although the National Association of Manufacturers hasn't nixed it. Its jury is still out. Vice President for Tax Policy

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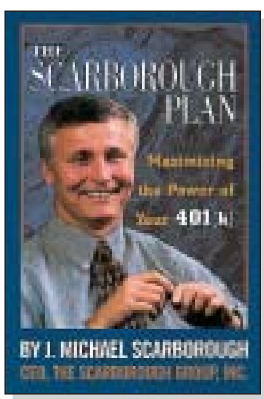
BOOKS

Planning for Retirement

✷ **ESTABLISHED IN 1981, THE 401(K) PLAN IS NOW** the most popular method companies offer to employees to establish a retirement nest egg. More than 30 million people now participate in 401(k) plans. With the growing trend in retirement plans to switch from predictable defined-*benefit* plans to the unpredictable defined-*contribution* plan and the uncertainty of Social Security, it's imperative that more people understand the rudiments of retirement planning and its main component, the 401(k). J. Michael Scarborough does just that, explaining the intricacies of 401(k) plans and retirement planning in his book, *The Scarborough Plan*, published by Corinthian Books.



Though Scarborough addresses many issues, his main theme is how to maximize the advantages of a company-sponsored 401(k) program. Full of practical advice, he intentionally includes very little economic or financial theory. While this makes the material accessible to all, it may prove too simplistic and frustrating for those seeking a more sophisticated discussion of financial planning for retirement.

His discussion begins with the fundamentals of retirement planning, including the proper allocation of assets, the benefits of tax-free investing and compounding, the importance of participating in 401(k) plans to the fullest extent possible, and the consequences of inflation. Though some ideas are basic, Scarborough

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tries to bring a fresh and innovative perspective. For example, in asset allocation, he points out that asset allocation between investment risks should be based on a number of factors, one the length of time until retirement rather than the age of the individual. Also, Scarborough declares the conventional thought that only 60% to 80% of pre-retirement income is needed during retirement is rubbish. Rather, 100% of pre-retirement income is needed, and any thought of dying broke isn't prudent.

The second section focuses on concepts to maximize the power of a 401(k). Practical *dos* and *don'ts* are provided, such as *don't* borrow from a 401(k) because it keeps the borrowed portion of the assets from growing. A discussion of IRAs and how they can complement a 401(k) plan is provided, as is a primer in traditional, Roth, and rollover IRAs. This is where Scarborough gets the most technical, providing some financial and economic support. While it may be a bit complex for some, it is possibly the most interesting for readers seasoned in finance.

The final chapters are devoted to the proper management of retirement savings once a person is retired, including advice on professional assistance with retirement planning. This is an appropriate discussion since after-retirement use of a nest egg requires just as much planning as it did to create the nest egg. As always, Scarborough's guidance is simple but sound. He counsels that determining the proper management of retirement funds requires an understanding of the ABCs: assets, beneficiaries, and circumstances. Once these three variables are assessed, a knowledgeable decision can be made regarding withdrawal and use of funds. Though advice is given as to what assets should be depleted first, Scarborough suggests the goal should be to plan withdrawals so as to never touch the principal, or, if necessity dictates, maintain the principal's value as long as possible. Rejecting conventional rules of thumb (e.g., expect to live to the age of oldest-relative-plus-10), Scarborough exhorts that your financial retirement plan should assume that you will live forever and that you

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through. *Integrity is obviously the cornerstone of every ethics code. Trust is absolutely essential to business in today's technology-oriented environment. Achieving integrity and consistency through the application of the stated practices is essential to having a strong and ethical organization.*

7. A pursuit of collaboration, integration, and holistic thinking

Turf wars and narrow thinking are deadly. Drawing together the best ideas and practices, integrating the best people into collaborative teams, multiplies organizational strength.

8. Courage and persistence in the face of difficulty

The playing field is not always level or life fair, but healthy cultures remain realistic about the challenges they face and are unintimidated and undeterred by difficulty. *As major facilitators of the budgeting process, finance managers need to be sure that the resulting goals fairly reflect just and reasonable challenges throughout the organization.*

The listed organizational traits mirror many that have been discussed previously in this column. They include having an open and trusting management style, a commitment to a code of conduct, and ethics with a values orientation. Research shows these companies—and good corporate citizens as a group—return superior performance to shareowners as well as have beneficial relationships with other stakeholders, including employees, suppliers, communities, and the public at large.

In the effort to better differentiate these companies, significant efforts to broaden corporate reporting to include specific information of value to stakeholders other than shareholders has been under way for some time and are nearing fruition. Organizations that want to distinguish themselves will place management accountants and financial managers in the forefront of those efforts.

QUESTION:

1. Aside from the eight qualities mentioned here, are there other traits that should be considered part of a strong and ethical culture?

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[1] Used with permission. The structure for these traits was developed by David W. Gill and appears in *Becoming Good*.

should plan to die with more assets than at retirement!

At the book's conclusion, Scarborough lists The Scarborough Plan in 21 steps. Many of them can be summarized simply: Begin saving for retirement early in life, and live frugally!—*Brian Porter, CPA*

Brian Porter, Ph.D., CPA, is an associate professor at Hope College in Holland, Mich.

[GOV'T] *cont'd from p. 3*

Dorothy Coleman says it's very important to get a new pension liability funding system in place quickly. "The current 'fix' expires in a few months, and the uncertainty about which rate will apply is hindering business planning," she explains. "Hundreds of millions of dollars are being unnecessarily diverted into pension plans when they might otherwise be working to grow our economy."

Averting a $5 Billion Corporate Tax Increase?

U.S. companies who export will pay an extra $5 billion in taxes next year unless Congress does something to replace the elimination of the Foreign Sales Corporation-Extraterritorial Income Act (FSC-ETI) regime. That regime excluded foreign revenue from U.S. taxes until the World Trade Organization ruled it an illegal subsidy. Because the FSC-ETI won't be available in 2004, U.S. companies will have to pay income taxes they avoided before. So the question before Congress is what to do. James G. Berges, president of Emerson Electric, who represented the Coalition for American Manufacturing Jobs at a recent Senate Finance Committee hearing, wants Congress to make up for the loss of the $5 billion FSC/ETI by permanently excluding from active business income 15% of what is called "M&P," which is defined as the mechanical, physical, or chemical transformation of materials, substances, or components into new products. In short: manufacturing costs. According to a technical analysis done by PricewaterhouseCoopers, the 15% exclusion is equivalent to a five-percentage-point cut in the 35% corporate tax rate on M&P income. The beauty of the proposal, Berges says, is that it saves U.S. companies exactly the $5 billion that they will have to pay in 2004 because of loss of the FSC/ETI. Moreover, all manufacturers will qualify, not just those who export. Berges has gotten positive feedback from members of Congress.

IRS Settlement

The IRS's decision to negotiate a settlement with Ernst & Young in a tax shelter case didn't go over well with Sen. Chuck Grassley (R.-Iowa), chairman of the Senate Finance Committee. On July 2, the IRS announced Ernst would make a nondeductible payment of $15 million to settle charges brought by the IRS. Grassley doesn't think Ernst's violations should have been a matter of negotiation. "That the IRS had to negotiate Ernst & Young's compliance underscores the need to pass the Grassley-Baucus shelter legislation," Grassley states. That bill would toughen current tax shelter rules, but both the Senate and House have been reluctant to wade into this issue in the past. ■