BY STEPHEN BARLAS, GROVER PORTER, DALE SCHWARTZENHAUER, LANCE THOMPSON, KATHY WILLIAMS

[NEWS]

Financial Executives Evaluate SOX Compliance | KATHY WILLIAMS, EDITOR

A majority of financial executives (79%) say their companies have stronger internal controls as a result of complying with the Sarbanes-Oxley Act (SOX), and 74% say their companies have realized a benefit from compliance. As to what kind of benefit, 46% say SOX compliance ensures the accountability of individuals involved in financial reports and operations, 33% mention a decreased risk of financial fraud, 31% say reduced errors in financial operations, 27% note improved accuracy of financial reports, 25% say it empowers the board audit committee by providing it with deeper information, and 20% mention it strengthens investors' view of the company. On another note, 31% of the respondents say that more than 50% of their financial department professionals hold financial certifications (such as CMA, CFM, CIA, CPA, etc.) from an organization with an enforceable ethics code.

These are a few of the results of a survey of 222 financial leaders (CFOs, controllers, treasurers, vice presidents, and directors) conducted recently by Oversight Systems, Inc., which continuously monitors key controls required for SOX Section 404 certification. In other findings, 57% of the respondents say SOX compliance was a good investment for stockholders, yet the results were mixed as to the value for shareholders. For example, 37% note that SOX increased shareholder value because investors know the business operates ethically, yet 33% say SOX created a cost burden that suppresses their stock price.

When asked about their spending levels for first-year SOX compliance, 54% said they spent more than they expected, 40% said they spent what they expected, and 7% said they spent less than they expected. As to their feelings about the legislation, 52% said Congress had good intentions when it passed SOX but that it didn't fully consider the costs of compliance. Thirty-eight percent said SOX was Congress's overreaction to the unethical behavior of a few executives, but 28% said the market requires such regulation to boost investor confidence in the market's integrity. Only 13% said the benefits of SOX outweigh the costs, while 25% said the costs outweigh the benefits.

Regarding how often they plan to monitor and test their own internal controls for SOX 404 compliance, 38% say once a quarter; 23%, continuously as transactions occur; 22%, monthly; 10%, weekly; and 7%, daily. How many full-time employees are dedicated to SOX compliance? Eighteen percent said more than 15, and 61% said less than five.

Twenty-five percent of the respondents were in *continued on page 23*

FASB ISSUES FINAL RULE ON STOCK OPTIONS

Last month the Financial Accounting Standards Board published Statement on Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," which requires companies to recognize in their financial statements compensation cost relating to stock options and other share-based payment transactions. This cost will be measured based on the fair value of the equity or liability instruments issued.

Public companies other than small businesses must do this as of the first interim or annual reporting period that begins after June 15, 2005. Small businesses and private companies will be required to apply the Statement in the first interim or annual reporting period that begins after December 15, 2005.

Statement No. 123R covers stock options, restricted share plans, performance-based awards, share appreciation rights, *continued on page 23*

Letters to the Editor

Ethics Isn't Just Doing the Right Thing

I wanted to respond to the article "Corporate Greed vs. IMA's Ethics Code" from the November 2004 issue of *Strategic Finance.*

As I found from completing the CPA licensing requirements, ethics is not simply about doing the right thing. It isn't as easy as returning a blank check to the rightful owner. It also has a lot to do with making the right interpretation. Many of the exam questions were extremely complex, especially related to one's position on audit teams and what characterized "direct material interest" and "indirect immaterial interest" relative to the audit entity. It was enough to make me realize that determining conflict of interest is not as simple as connecting the dots. It also made me wary of ever becoming part of an audit team.

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Impressed By Ethics Coverage

I was impressed by the coverage devoted to ethics issues in the November 2004 issue. I found the column "CEOs Set Ethics Priorities: Ordinary Citizens Define Ethics Broadly" and the article "Corporate Greed vs. IMA's Ethics Code" especially interesting and informative. The inclusion of the toll-free telephone number of the IMA Ethics Hotline (1-800-6ETHICS) would have improved the information value

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[GOVERNMENT]

Bush to Push for Tax Changes

Simplifying corporate accounting will be one of the rallying cries heard clearly on Capitol Hill as President Bush pushes his effort to reform the U.S. tax system. During the campaign, the President talked about lowering the 35% corporate tax rate, second highest in the world next to Japan, to 32%. But a simple cut like that may be, well, too simple given Bush's newfound enthusiasm for tearing the current tax code apart. Moreover, federal court decisions in October and November that legitimized tax shelters used by companies such as General Electric provided more political fuel to the fire that's building under proposals for corporate tax system replacements such as value-added taxes (VAT) and cash-flow business (CFB) taxes. Naturally, corporations argue that rules on depreciation and amortization—and plenty others—are confusing as heck and that they are doing the best they can under a bizarre system. And if they unknowingly stumble into a corporate shelter, well, what are they supposed to do? A cash-flow tax (CFT) would be imposed on the net cash flow of businesses, not on net income or profits. The most commonly proposed type of cash-flow tax (an "R-based" tax) would be based on the sale of goods and services less current and capital expenses. A VAT, widely used by European governments, would kick in at each level of production of goods and services. "We need to look at all alternatives," says House Speaker Dennis Hastert (R.-Ill.). Asked about the possibility of sweeping change to tax laws during Bush's second term, Hastert adds, "I think this is the only time in generations that you might have a chance to be able to do it."

> Corporations argue that rules on depreciation and amortization are confusing as heck.

Dorothy Coleman, vice president of tax policy for the National Association of Manufacturers (NAM), says the current tax code is a "drag on the economy." But the NAM hasn't endorsed any tax code replacements, including a VAT or CFT. "But we do support simplifying the system," Coleman explains. "Two things we are concerned about are getting transitional relief in any new system and ensuring that a new system does not create 'winners and losers.'"

Pension Reform High on Congressional Agenda

The temporary fix Congress passed in 2004 that established the corporate bond interest rate companies must use to calculate their pension liabilities expires at the end of 2005. That means the new Congress will once again be knee deep in the sticky issue of pension reform. And, like corporate taxes, corporate pension obligations may be subject to a much broader, more intense debate than just the issue of interest rates on liabilities. That seems to be assured by the continued dumping of corporate plans, the latest being

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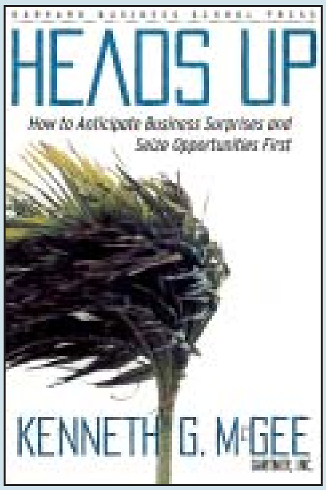
[BOOKS]

Real-Time Opportunity | BY LANCE THOMPSON

Business surprises of all sizes occur with alarming frequency. Managers are using outdated and practically useless information to make critical business decisions, which leads to missed opportunities at best or disastrous failures at worst. By monitoring progress daily, managers can look for the warning signs of an impending surprise and turn the unexpected into a whole new world of opportunity. In *Heads Up: How to Anticipate Business Surprises and Seize Opportunities First*, author Kenneth McGee describes how to put an end to the devastating consequences of business surprises by transforming companies into real-time enterprises, that capture and present critical material information as events occur.



A real-time enterprise looks in real time for opportunities in all of its critical business processes by monitoring, capturing, analyzing, and reporting all the events that are critical to the success of the company. By detecting any event that affects the most critical business processes the moment it occurs, a real-time enterprise has the greatest number of response options and the most response time possible.

McGee bases his real-time information identification and justification methodologies on concepts that apply to every corporation. These help determine a prioritized list of the select few metrics that need to be monitored in real time. The main concepts are:

1. Data that can be used to avoid surprises, capitalize on opportunities, and make midcourse corrections exists already.
2. The amount of material data is relatively small and determinable. Only a small percentage of potential operational data, perhaps 5%, is required to measure critical goals.
3. Material data can be captured and monitored on a continuous basis.
4. Monitoring allows departments, business units, and entire corporations to see the daily progress they are making toward their goals—what McGee describes as "predicting the future."
5. Events and changes can be anticipated in time to adjust tactics and strategies. The forward-looking, early warning approach, which McGee calls real-time opportunity detection, ensures that goals are met, opportunities are maximized, and disasters are avoided.

The implementation problems for becoming a real-time enterprise are systemic—bad processes and bad culture. The concerted efforts of managers and executives are needed to change the prevailing business culture and focus existing processes on getting the right information to the right individuals in real time. While technology is a significant enabler, the real challenge is getting all those involved to adapt their thinking to monitor crucial data in real time. Implementation also includes information technology challenges, process challenges, the need for new roles and responsibilities, and the challenges of changing people's behaviors and work styles.

Heads Up is directed at every manager who has responsibility for expenses or revenues. It will help businesses improve their ability to meet goals by becoming less vulnerable to surprises as they track material information about their most important goals in real time using a look-ahead, early warning means. This is an excellent book that can help companies find the strategic advantage of real-time information and move from being "data rich and information poor" to one focused on the few vital success factors. This book is a "heads-up" about the power of the present and real-time information. ■

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[GOV'T] *cont'd from p. 20*

United Airlines, which dropped four of its plans onto the lap of the Pension Benefit Guaranty Corporation (PBGC) on Election Day. The PBGC is awash in underfunded pension plans it's trying to keep afloat. The PBGC assumed 178 pension plans covering 148,000 workers in its 2004 fiscal year, which ended September 30. The year before, it took over 152 plans covering 206,000 workers. These moves have depleted the PBGC's coffers. The PBGC already had a record $11.2 billion shortfall in 2003, and the agency expects that figure to spike up in 2004. "As the law exists, it's not even necessary for a company to file bankruptcy; they can transfer pension liabilities without filing for bankruptcy," said PBGC spokesman Jeffrey Speicher. "We expect the problems to be addressed by Congress and the administration."

SEC and Executive Compensation

One area the Securities & Exchange Commission definitely will address in President Bush's second term is executive compensation, particularly how it's reported in financial statements. We mentioned this issue in an earlier column, which noted the SEC agreement with General Electric in September dealing with GE's reporting—or rather failure to report—elements of Jack Welch's retirement package. In remarks before some trade groups in October, Alan L. Beller, director, division of corporation finance at the SEC, expanded on the Commission's concerns in this area. He highlighted a couple of specific ones, such as nondisclosure of perks, saying, "The valuation of perks also should be carefully examined.… We have seen disclosure of large tax gross ups for perks that are themselves not disclosed, and this obviously raises questions. I also remind you that the appropriate measure of value is the aggregate incremental cost to the company, not the tax value of the benefit." ■

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companies with more than $5 billion in annual revenue, 23% in companies with revenue of $1 billion to $5 billion, 22% between $251 million and $999 million, and 30% with revenue of $250 million or less. To find out more about the survey and download the findings, visit www.oversightsystems.com/newspress/survey.pdf. ■

[LETTERS] *cont'd from p. 20*

of the article.

The code of ethics of all the professional accounting organizations (AICPA, FEI, IIA, IMA) lack a strong whistleblowers clause. As a former member of the IMA Committee on Ethics and a current member of the Tennessee Society of Certified Public Accountants' Committee on Professional Ethics, I continue to promote the inclusion of the following whistleblowers clause in codes of ethics: "If the ethical conflict still exists after exhausting all levels of internal review, it may be appropriate to notify parties outside the organization regarding significant matters."

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[FASB] *cont'd from p. 19*

and employee share purchase plans. It replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." To download a copy of the Statement, visit the FASB's website at www.fasb.org. ■