streetwise

BY STEPHEN BARLAS, RICK DUIMSTRA, MIKE OSHEROFF, GENE SMITH, KATHY WILLIAMS

[NEWS]

Robert Herz Is Reappointed FASB Chairman | KATHY WILLIAMS

The Financial Accounting Foundation (FAF) has reappointed Robert H. Herz to a second five-year term as chairman of the Financial Accounting Standards Board (FASB). His term begins July 1, 2007.

Before his initial appointment on July 1, 2002, Herz was Pricewaterhouse50 Coopers Americas' leader of Professional, Technical, Risk & Quality and was a member of the firm's Global and U.S. Boards. He also served as a part-time member of the International Accounting Standards Board (IASB). Herz is a U.S. CPA and a U.K. Chartered Accountant (CA).

In 2002, Chairman Herz presided over the historic Norwalk Agreement between the FASB and the IASB under which the two Boards agreed to work together to develop a common set of high-quality international accounting standards that will better serve the global capital markets (informally known as "convergence"). Since that time, the Boards have made significant progress, and in April 2005 they agreed that all major projects would be conducted jointly.

"Initially appointed at one of the most challenging times in the history of our reporting system, Chairman Herz has helped lead the FASB's efforts to significantly improve the quality of financial information available to investors and the capital markets," Robert E. Denham, chairman of the FAF board of Trustees, said. "The Board's projects on such critical accounting issues as share-based payment, defined benefit pension and other post-retirement benefit plans, fair value measurement, and lease accounting are just a few examples of Bob and the FASB's tremendous commitment to its mission and the public interest."

The FASB notes that Robert Herz is a staunch champion of simplification and the need to reduce complexity in the financial reporting system. Accordingly, they say, the "FASB has undertaken major initiatives to integrate and codify the massive volume of all current nongovernmental accounting pronouncements into a single source, stem the proliferation of accounting pronouncements emanating from multiple sources, and develop standards in a more principles-based manner."

Herz, 53, is a native of the New York City area and has also lived in Argentina and England. He joined Price Waterhouse in 1974 after graduating from the University of Manchester in England with a B.A. degree in economics. He later joined Coopers & Lybrand, becoming its senior technical partner in 1996, and assumed that position for the merged firm of PricewaterhouseCoopers in 1998. ■

FASB WANTS YOUR INPUT

Last month the FASB issued an invitation to comment (ITC) asking constituents to provide views on whether additional, more specific valuation guidance is needed in financial reporting and what the process should be for developing that guidance. The ITC also asks for constituent perspectives about the extent to which the FASB or other organizations should be responsible for developing guidance on valuation issues that translate into financial reporting matters. This is part of the Board's mission to improve and enhance the quality, consistency, and comparability of financial statements.

You can find the document, "Valuation Guidance for Financial Reporting," on the FASB website at www.fasb.org. Look under Exposure Documents, and scroll down almost to the bottom of the list. Comments are due by April 15, 2007, and you can send them to director@fasb.org.

The FASB also is holding a public roundtable in April to discuss the issues in the invitation to comment. Anyone who is interested in participating in the roundtable should contact Paul Beswick at (203) 956-3453 or pabeswick@fasb.org. ■

Letters to the Editor

MORE PRACTICAL ARTICLES

In the Letters to the Editor section of the November 2006 issue of *Strategic Finance*, Mr. Jerry Radowitz stated "...our magazine (*Strategic Finance*) is much too large business oriented...." I support his position. The majority of the IMA membership is not employed by *Fortune* 100 companies. Most of the articles appearing in *Strategic Finance*, in my opinion, are written by (1) accounting professors who are probably more interested in publishing an article (i.e., "publish or perish") than informing IMA members, (2) consultants, or (3) [the] chairman of an international recruiting agency.

I was pleased that Mr. William Brower, IMA Chair, in the Perspectives section of the December 2006 issue commented on improving the relevancy, readability, and worldwide circulation of *Strategic Finance*.

The vast majority of IMA members are practicing management accountants. The national, regional, and chapter leadership should continually emphasize to the membership the need for members to write relevant, practical articles rather than allowing the pages of *Strategic Finance* to be filled, almost exclusively, with articles written by accounting professors or consultants and officers of recruiting agencies who want to provide consulting and recruiting services to the IMA membership.

Gene Smith

I "second" the letter written by Jerry Radowitz that content is too large business oriented. We need more "practical" articles.

Rick Duimstra

[GOVERNMENT]

SEC Proposes Changes to Section 404

STEPHEN BARLAS, EDITOR

As expected, the Securities & Exchange Commission (SEC) proposed changes to its requirements telling companies how to comply with the SOX Section 404 internal control provisions and did so in parallel with the Public Company Accounting Oversight Board (PCAOB), which proposed changes to its Auditing Standard 2 (AS2). The SEC's proposed interpretive guidance aims to fill a void where company accountants have been looking over their shoulders at AS2, which critics have complained is way too detailed. The SEC interpretive guidance aims to give companies a better idea, and flexibility, of how to finger the internal controls that really relate to materiality, thus simplifying corporate testing and reporting.

John W. White, director of the SEC's division of corporation finance, says, "The proposed interpretive guidance should reduce uncertainty about what constitutes a reasonable approach to management's evaluation while maintaining flexibility for companies that have already developed their own assessment procedures and tools that serve the company and its investors well."

The real question, of course, is whether the interpretive guidance and changes to AS2 will quiet business groups who have pushed for Section 404 simplification, such as the U.S. Chamber of Commerce, arguing that the SEC and PCAOB requirements are too costly. David Chavern, senior vice president and chief legal officer at the Chamber, states, "We applaud the SEC for moving toward a scaled standard flexible to the needs of companies of all sizes." But Chavern gave something less than a 100% endorsement. He added that implementation of the changes was key and that the Chamber looked forward to commenting on the proposal and working with the SEC to ensure that it will lead to actual improvement for public companies.

SOX Changes in Congress

The proposed changes from the SEC and PCAOB won't stop two congressmen from reintroducing their Sarbanes-Oxley reform bill, called the COMPETE Act, in 2007. Reps. Tom Feeney (R.-Fla.) and Gregory Meeks (D.-N.Y.), both members of the House Financial Services Committee, which has jurisdiction over the issue, plan to pursue passage of their bill in the new 110th Congress. Sen. Jim DeMint (R-S.C.) sponsored the bill in the Senate last year. While the bill didn't get any traction last year, Rep. Nancy Pelosi (D.-Calif.), the new Speaker of the House, pledged during the 2006 campaign to "revisit" SOX, a commitment she renewed nine days after the election when she visited the Washington offices of the American Electronics Association.

Pelosi hasn't endorsed any reform proposal, much less the Feeney-Meeks bill, which goes far beyond what the SEC and PCAOB did in December. Not only does the COMPETE Act dispense with 404

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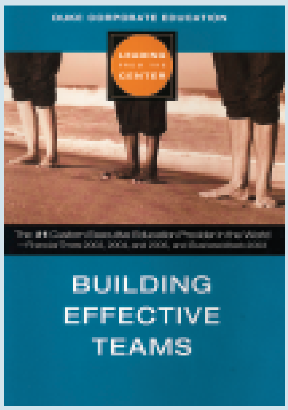
[BOOKS]

Teamwork in the Global Economy

Ever since the dawn of the Industrial Age, teams of individuals have provided goods and services. Literally thousands of books have been written on what constitutes an effective team, and *Leading from the Center: Building Effective Teams* by Duke Corporate Education (the book itself is the product of a team) joins that collection and reinforces the utility of good teamwork in the modern firm.



There is a difference between a collection of experts and a real team. Although the former may be composed of the best people in their field, the group usually won't produce any more than the sum of the individuals' contributions—they lack a common purpose, means of communicating among members who may not be physically located in the same place, and a mechanism to provide feedback so the group can meet changing needs and goals. Through the synergy of its participants working together, however, a team can approach situations and produce solutions that are even beyond the capabilities of the group of experts.

The manager is the catalyst who turns that group of individuals into an effective team. First of all, it is the manager's job to identify what the team will accomplish. Unless all team members share a clear understanding of the goals, it's unlikely that the team will be able to accomplish much of anything, and it's the manager's role to define that goal and continually monitor the team's progress.

Team members have to be selected with care. All of the skills needed to accomplish the goal must be represented. Members can be existing employees of the firm or department, but the manager must also look outside his own department and even consider hiring consultants from outside the company for expertise that is lacking.

The manager must continually monitor the team to be sure that its goals are being addressed correctly. Providing feedback to team members not only keeps them on track, but it lets the manager align individual efforts to meet changing strategy, resources, and technology. Keeping team members abreast of goal accomplishments and continually apprised of and rewarded for their contribution as well as ensuring that the proper skills and resources are in place will usually lead to the achievement of team objectives.

The authors point out that there are four powerful and pervasive trends affecting the role that managers are being asked to assume today, which is different from that of the past. The traditional team model may have worked well yesterday, but teams must now work on a greatly expanded basis: Modern teams may no longer be able to meet in a central location weekly; members may live in different countries, and their business segments will probably be subject to different governmental regulations; the modern-day conglomerate not only produces goods A and Z, but also everything in between while providing services to boot; and advancement in communication technology has created a 24-hour-a-day information stream that would overwhelm any manager of the past. The tight-knit organization of the past is gone—the modern firm that has taken its place has vast resources and far-flung operations. The problem modern management faces is figuring out how to address the needs of the firm and its consumers using the teamwork model.

The authors touch on the solution to this modern-day management dilemma in the consideration of team objectives. In the past, teams have been created to bring new products to consumers, build additional facilities, or create marketing plans to expand sales. Teams often numbered six to a dozen people and worked in the same location. Nowadays, with production and markets spanning nations and continents, it's no longer possible for this traditional teamwork to provide a solution. The firm's strategy must be global, whether it produces for the local market or overseas—competition is global regardless of the company's customers. Consequently, the real problem is that the strategy that must be developed is too large for any one team to address.

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[GOV'T] *cont'd from p. 24*

reporting for small businesses (the SEC has extended the compliance deadline for small businesses a number of times), but it also does something that would be a big benefit to large companies: It replaces the "remote likelihood" standard in AS2 with a "5% de minimus material weakness criterion (based on 5% of net profits)." The PCAOB revision of AS2 announced in December includes language substituting a "reasonable possibility" standard for the current "remote likelihood" standard.

Justice Ups Barriers to Business Prosecution

New guidelines from the Justice Department would force federal prosecutors to get approval from Washington before seeking some kinds of corporate documents as part of a financial fraud investigation. The guidelines focus on the sensitive issue of when prosecutors can force companies to waive their legal rights to protect e-mail messages and other internal communications. Announced by Deputy Attorney General Paul J. McNulty in December, the new guidelines force prosecutors who seek information about suspected wrongdoing to first win approval from the top official in their home offices before asking a business to waive its attorney-client privilege. Government lawyers who want to review contacts between a company and its attorneys under a privilege waiver must go all the way to the Justice Department for permission from its second-highest-ranking official, who is, at the moment, the aforementioned McNulty. Frederick J. Krebs, president of the Association of Corporate Counsel, says the McNulty memo "is a day late and a dollar short." He adds, "Asking prosecutors to get permission before formally requesting that companies waive their attorney-client privilege will not put an end to the 'culture of waiver' that exists within the DOJ." He also states that the McNulty memo fails to address many other key issues, such as entering into joint defense agreements, sharing documents between companies and employees under investigation, terminating employees who assert their legal rights, and protecting attorney work product. ■

[ETHICS] *cont'd from p. 22*

3. Management's Philosophy and Operating Style—Management's philosophy and operating style support achieving effective internal control over financial reporting.

4. Organizational Structure—The company's organizational structure supports effective internal control over financial reporting.

5. Financial Reporting Competencies—The company retains individuals competent in financial reporting and related oversight roles.

6. Authority and Responsibility—Management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control over financial reporting.

7. Human Resources—Human resource policies and practices are designed and implemented to facilitate effective internal control over financial reporting.

In terms of expectations, the SEC's new guidance is likely to be most valuable to public companies. It splits the management assessment of internal control from the excessive auditing constraints set by the PCAOB. But the guidance proposed by both the SEC and the PCAOB fails to demonstrate the leadership necessary for implementing hoped-for reforms that recognize the importance of the ethical culture in an organization and other top-level, company-wide processes. In short, the PCAOB draft fails to address the excessive auditing costs of "proving" that effective internal control exists over the many details of transaction processing.

Both the SEC and PCAOB solicit comments on their guidance proposals. Details of how to do so are contained on their respective websites at www.sec.gov and www.pcaob.com. ■

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[BOOKS] *cont'd from p. 25*

The modern manager must look at parts of the firm's strategic goals that are identifiable, achievable, and can be accomplished in coordination with other managers. The traditional model of the team is still valid, but because of a constantly changing environment, the modern team must address smaller and smaller parts of the firm's overall strategy. The manager's role has expanded to include not only monitoring team efforts in light of changing circumstances but also coordinating with disparate teams in the achievement of total corporate objectives.—*Mike Osheroff, osheroff@worldaccessnet.com*