streetwise

BY STEPHEN BARLAS, LINDA DEVONISH-MILLS, DREW MILLER

[PROFESSIONAL ADVOCACY]

IMA Attends FASB Roundtable

BY LINDA DEVONISH-MILLS, CPA

Last month at its headquarters in Norwalk, Conn., the Financial Accounting Standards Board (FASB) held a roundtable to discuss its Conceptual Framework project. Linda Devonish-Mills, CPA, IMA director of professional advocacy, and Bob Laux, CMA, CPA, director of technical accounting and reporting at Microsoft, Inc., and a member of IMA's Financial Reporting Committee (FRC), participated in the discussions.

The roundtable was the first in a series of sessions related to the FASB's joint Conceptual Framework project with the International Accounting Standards Board (IASB).

The purpose of the February 1 event was to collect input from professionals in public accounting, private industry, and academia regarding their views on measurement as part of this project.

Senior-level staff at the Securities & Exchange Commission (SEC) and the FASB have expressed concerns about the amount of complexity and authoritative literature around financial reporting, and the comments I heard during the roundtable confirmed these concerns.

The current Conceptual Framework focuses on objectives and qualitative characteristics of financial reporting. At present, there are no plans to make significant changes to the current Framework. IMA's Financial Reporting Committee supported this position in a letter that it submitted to the FASB on November 6, 2006. Still, considerations will be made regarding cost/benefit, who will benefit from change, and the benefits of new information.

The IASB and the FASB recognized that although there is a reference to measurement bases in the current Conceptual Framework, they aren't recognized as a key aspect of financial reporting. The current Framework doesn't provide an analysis of the advantages and disadvantages of each basis or the

continued on next page

FASB INVITES YOU TO COMMENT

On January 15, 2007, the FASB issued an invitation to comment, "Valuation Guidance for Financial Reporting," to solicit comments from interested constituents about the need, if any, for valuation guidance, including related implementation guidance for financial reporting; the specificity of this valuation guidance; and the duration of standard-setting activities. The Board is also interesting in getting feedback from constituents to determine if it should be the only regulatory body involved with providing such guidance.

A small working group from IMA's Financial Reporting Committee will be putting together a response to the FASB. Comments from constituents must be submitted by April 15, 2007. You can find a copy of the invitation to comment on IMA's website at www.imanet.org/relations_advocacy_fasb.asp. ■

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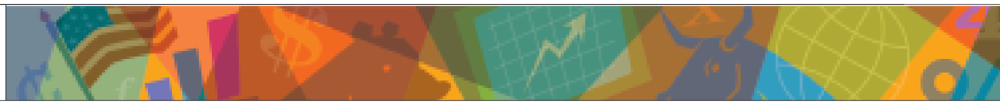


[ADVOCACY] *cont'd from p. 19*

criteria for selecting them when measurement requirements for a standard are determined.

There were some interesting deliberations among attendees at the roundtable that led to the conclusion that more research and discussion are needed before a decision can be made if we will ever see a world that just uses fair value vs. historical cost when accounting for various financial elements that make up a company's financial statements. There needs to be some clarity with definitions of all of the measurement bases that are used under the current Conceptual Framework.

Information about the Conceptual Framework project can be found in the External Relations/Professional Advocacy section of IMA's website at www.imanet.org/relations_advocacy_fasb.asp. The timeline for the Conceptual Framework project can be found on the FASB's website at www.fasb.org/project.

IMA members may contact Linda Devonish-Mills, director of professional advocacy, at lmills@imanet.org for additional information about the FASB's roundtable discussion and invitation to comment or to share your thoughts on these issues. ■

[GOVERNMENT]

Senate Bill Makes Key Changes in Tax Laws

STEPHEN BARLAS, EDITOR

It looks like the House put at least a temporary crimp in the Senate's attempt to restrict some deferred compensation plans. Arguing that the House must initiate tax bills, the House refused to pass the Senate's minimum wage bill, which included extended tax breaks for small business and revenue raisers to pay for those breaks. One revenue raiser involved a change to §409A of the Internal Revenue Code, capping the amount of tax-exempt deferred pay that can be put aside each year in nonqualified deferred compensation plans for a business executive at the lower of $1 million or the executive's average annualized income over the last five years.

In February, Rep. Charles Rangel (D.-N.Y.), chairman of the House Ways & Means Committee, introduced a much smaller tax bill that didn't include the §409A change. If the House passes that Rangel bill, the House and Senate would have to agree on some sort of compromise between their two tax bills, both in terms of which tax cuts to extend and which revenue raisers to keep. The Senate change to §409A may not be resuscitated, however. It would only raise $80 million, and business group opposition to the change coalesced substantially after the Senate passed its minimum wage bill.

New Impetus for Passage of Foreign Investment Bill

A bipartisan group of House members introduced a bill (H.R. 556) that would clarify how the Committee for Foreign Investment in the United States (CFIUS) should evaluate potential takeovers of U.S. companies by foreign firms. It was CFIUS's somewhat careless review of the Dubai Ports World acquisition of P&O Steamship Navigation Company's U.S. port operations last year that led to House and Senate passage of two very different CFIUS reform bills. The House and Senate were unable to reconcile their bills in 2006, leaving a situation where a somewhat gun-shy CFIUS is adding troubling caveats to some acquisitions. Last fall, for example, CFIUS attached a so-called "evergreen" condition to the Alcatel-Lucent merger. That provision was "a disturbing departure" that could allow the U.S. to "unwind" the merger at any time in the future, according to a December 5, 2006, letter sent to Treasury Secretary Henry Paulson by major business groups.

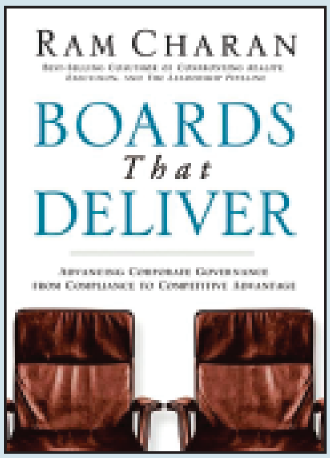
But the House and Senate are apt to agree on CFIUS changes in 2007. The House will pass H.R. 556 quickly. According to Bruce Josten, the executive vice president at the U.S. Chamber of Commerce, the Senate is likely to pass a bill much more in line with the House bill this year because Sen. Chris Dodd (D.-Conn.), new chairman of the Senate Banking Committee, is sympathetic to business concerns. That wasn't true of the chairman and ranking Democrat on the committee in 2006, Sens. Richard Shelby (Ala.) and Paul Sarbanes (Md.), respectively.

continued on page 61

[BOOKS]

Productive Boards

With increasing regulation, scandals, and the ever-growing competition in the corporate world, the actions and involvement of a company's board of directors are becoming even more vital. In *Boards that Deliver*, Ram Charan asserts that a well-managed, hard-working corporate board can both keep the company out of trouble *and* serve as a source of competitive advantage by helping the CEO make better decisions.



Charan has delivered an excellent, practical guidebook on how to develop a "Progressive" board of directors—one that is not only willing to challenge the CEO and ensure compliance with proper accounting and reporting, but also improves the management and performance of the company.

Charan offers valuable and largely practical suggestions for activities that a board should and shouldn't do. Most suggestions are described in good detail and often include lists and recommended schedules. Throughout the book, Charan deals with the inherent tensions between the CEO and an independent board, offering sound advice on how to improve interactions and channel the independent directors' ideas and concerns into constructive, ideally congenial advice that can be used to improve the corporation's management.

Based on my experiences serving on two public company boards, I'd say that Charan's most important recommendation is that boards should concentrate on substantive issues and spend less time listening to last quarter's results. Boards must focus their limited and expensive time and attention on issues that are most critical to a company's success. To do so, Charan suggests 10 questions every director should ask:

1. Do we have the right CEO?
2. How well is the CEO's compensation linked to actual performance?
3. Do we have a precise understanding of the money-making recipe in the chosen strategy?
4. Is the management team looking at external trends and diagnosing the opportunities and threats presented?
5. What are the sources of organic growth?
6. How rigorous is the process for developing the leadership gene pool?
7. Do we have the right approach to diagnosing financial health?
8. Are we examining measures that capture the root causes of performance?
9. Do we get bad news from management in time and unvarnished?
10. How productive are executive sessions?

Boards that Deliver is based to a large degree on Charan's work consulting for corporate boards for the past several decades. This is both the book's strength and major weakness. The examples in the book are focused on the largest corporate giants, and dozens of suggestions are impractical—if not impossible—for small and probably most midsize firms. Hiring all the consultants he recommends and involving management in all the planning and evaluation projects proposed would entail costs that would bankrupt smaller public companies.

The Sarbanes-Oxley Act requires an accounting expert on the board. Charan says the key question for a board to focus on when monitoring the firm's financial health and risk is, "Will liquidity be sufficient if conditions sour?" The board shouldn't approve an ambitious strategy that could bankrupt the firm if the economy slows or a competitor matches the product without seriously questioning the risks and considering mitigation options. Accountants interested in board work should know that their potential contributions extend far beyond serving on the audit committee and include offering insights in strategy, management, and other areas of board work beyond the financial realm.—*Drew Miller, CMA*

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

Medicare Bill Could Affect Corporate Bottom Lines

You might not normally think that the House bill requiring the federal government to negotiate drug prices for Medicare recipients would have an impact on corporate balance sheets, but guess again. It's true that the bill the House passed in January won't pass the Senate, but the Senate could pass a more limited bill authorizing the secretary of health and human services (HHS) to negotiate prices for only certain categories of drugs. That is what the bipartisan bill introduced by Sens. Ron Wyden (D.-Ore.) and Olympia Snowe (R.-Maine) does.

Any downward pressure on Medicare drug prices would reverberate in the corporate sector, according to Cara Jareb, director, retiree medical consulting, Watson Wyatt Worldwide. She cites statistics from the Center for Medicare and Medicaid Services (CMS), the agency that administers Medicare, showing that 6.9 million of the 38 million Medicare participants in Part D are corporate retirees in private corporate plans for whom each company gets a subsidy from Medicare. Another 16.4 million Part D participants actually get their drug benefits from one of the Medicare plans, but those individuals also get payments from their former employers to underwrite their Part D participation.

On the other hand, if drug companies are forced to cut their prices to Medicare, they are likely to raise them to private payers, a phenomenon called "cost shifting." Steve Wojcik, vice president of public policy at the National Business Group on Health, which represents *Fortune* 500 companies, says, "There is a legitimate concern that cost shifting could occur." ■

[WORLDVIEW] *cont'd from p. 18*

corporate the knowledge of the CMA system into the existing QA and SQA exams. It is important, therefore, for IMA to show respect and acknowledge the value of those exams.

Integrating the CMA Exam

The Chinese government is quite anxious to improve the knowledge and expertise of management accountants in their country. There is room for integrating the CMA program into the Chinese system.

In our educated opinion, it's necessary to implement a two-tier CMA system: (1) a streamlined and translated CMA/C (Chinese) linked or merged with the SQA exam and part of the required CFO credentials, and (2) the regular, English-based CMA program marketed as an advanced international credential. Of course, IMA must continue the current efforts to improve the perceived value of the CMA credential. By leaving the regular CMA intact, the certification remains an international, expert-level credential. A translated version would supplement this by making a portion of the benefits of certification available to Chinese candidates who don't speak English.

A Foothold in China

IMA can continue to promote its certification in the Chinese market in the same way most of the Western accounting institutes/associations do, but it will probably experience similar ongoing frustrations. While candidates who pass these exams enjoy the respect of their potential employers for having accounting knowledge and being proficient in English, the certifications aren't necessary for a successful career. If IMA isn't aiming at the QA or SQA market, Chinese accountants won't think the CMA designation is relevant to their career. ■

NOTE: *IMA will keep members posted on any plans to proceed with a Chinese language version of the CMA examination.*

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[TRENDS] *cont'd from p. 60*

schedules...." Also, send the paperwork and details of your transactions to the outsourcing firm often so they can record your fund's activity. Receiving the data on a timely basis will allow them to administer your fund optimally.

Whether your private equity fund is established or in the planning stages, knowing how to do your due diligence and continually providing what's needed from you will increase your chances of success with a third-party fund administrator. ■