streetwise

BY STEPHEN BARLAS, RICHARD QUEEN, JERRY RADOWITZ, PAUL SHILLAM, KATHY WILLIAMS

[NEWS]

CFO Turnover Keeps Escalating | KATHY WILLIAMS

A study last month by Duke University and *CFO* magazine corroborates the information in this issue's cover story. Apparently, job pressure is driving CFOs out of their positions sooner than ever, and this, combined with shorter CEO tenures, is affecting corporate investment decisions.

According to results reported in a March 9 article on CFO.com, the CFOs who responded said their high turnover rate stems from "extreme pressure to deliver strong results in a shorter time frame" and from "the responsibility and tedium that accompany the greater compliance burdens of the post-Sarbanes-Oxley era." Regarding investments, 87.6% of the finance executives said that their companies "have shortened the payoff horizons of their investment decisions to coincide with the shorter tenure of executives."

The Business Outlook survey asked CFOs from a broad range of global public and private companies about their expectations for the economy and their jobs. Of the 741 respondents, 454 were from the U.S., 169 were from Asia, and 118 were from Europe. (The European survey was conducted jointly with RSM Erasmus University in the Netherlands.)

Other concerns the U.S. CFOs voiced were about rising labor costs; a shortage of skilled labor, particularly in the consulting/service, high-tech, and construction industries; weak consumer demand; and escalating healthcare costs.

But all wasn't negative. For the first time in more than a year, more respondents were positive than negative about the U.S. economy, and nearly half said they were positive about their own company's financial outlook, compared to 21.5% who said they were less optimistic. In other results, almost two-thirds of the respondents said they were going to increase capital spending this year,

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TOP 10 TECHNOLOGY CONCERNS

For the fifth consecutive year, information security management heads the list of the AICPA's Annual Top Technology Initiatives. These technology initiatives are expected to have the greatest impact in the coming year.

Information Security Management is defined as a systematic approach to encompassing people, processes, and IT systems that safeguards critical systems and information, protecting them from internal and external threats.

The other nine are:

Identity and Access Management, which consists of the hardware, software, and processes used to authenticate a user's identity and then provide users with appropriate access to systems and data based on preestablished rights and privileges.

Conforming to Assurance and Compliance Standards, which is creating formal strategies and systems to address organizational goals and statutory requirements.

Privacy Management, which concerns the rights and obligations of individuals and organizations with respect to the collection, use, disclosure, and retention of personal information.

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Letters to the Editor

More Excel, Please

I just came on board with the IMA in December 2006 and have been very impressed with everything I've received so far. Since December, I've passed one part of the CMA exam, and I am currently studying for my next part.

In reading the March issue of *Strategic Finance*, I came across the article titled, "Taking Human Error out of Financial Spreadsheets." In this article, it mentions the fact that most users of Excel have never received any formal training and are unsure how to even protect the formulas they write, if they know how to write them. Knowing that I am new and this is my first issue, what I'm about to suggest may already be in place and I just haven't seen it yet. My suggestion is that *Strategic Finance* include a "Technology Workshop," as the *Journal of Accountancy* titles it, that teaches people each month a certain aspect of Excel or other Office programs. For instance, in this month's issue of the *Journal of Accountancy,* they have an article titled, "The Power of Arrays," which is a fully illustrated tutorial on a few advanced, and very useful, Excel formulas. Please see the following link for my example: www.aicpa.org/PUBS/JOFA/mar2007/goldwater.htm. An article of this type appears each month in their journal. While this is not formal training, it certainly goes a long

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[GOVERNMENT]

Problems with 404 Guidance Continue

STEPHEN BARLAS, EDITOR

Once you get past the various versions of "good try" that begin the comment letters from business groups to the Securities & Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) on their proposed changes to Sarbanes-Oxley Section 404 interpretative guidance, you trip repeatedly over complaints with what the two agencies proposed last December. The SEC and PCAOB proposed changes to their respective guidance on how management should check and report on its internal controls and how auditors should do their review of those controls. The comment deadline was February 26, 2007. On that date, the business community unloaded with both barrels.

"We agree that the proposed guidance has the potential to assist companies in making their evaluation process more efficient and cost-effective," said Lawrence J. Salva, chairman of the Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) and senior VP, chief accounting officer, and controller of Comcast Corporation. But then Salva went on to note two "critical concerns" with the proposals from the SEC and PCAOB: The first was that alignment between the SEC's management guidance and the PCAOB's revised Auditing Standard No. 2 (AS2)—the new one is AS5—is out of whack. The second was a fear that PCAOB inspection practices may diverge from what is required by AS5.

David Chavern, COO and senior VP at the U.S. Chamber of Commerce, took essentially the same tack. He called the proposals "a legitimate and significant attempt to address the widespread concern of the business community and the difficulties that public companies have faced on the ground." He added, however, that "the core issues" with SOX 404 and AS2 that have driven companies crazy "have not been sufficiently addressed, particularly the ambiguity of the internal control requirements and the application of the rules to smaller public companies."

House Passes Bill Aimed at Simplifying Financial Reporting Requirements

While the Sarbanes-Oxley ball remains in the regulatory court, Congress took a few tentative dribbles in its own gym on an associated topic, the Promoting Transparency in Financial Reporting Act (H.R. 755), which the House passed unanimously on February 27. That overwhelming vote indicates that the bill doesn't do a heck of a lot. It requires the SEC, the Financial Accounting Standards Board (FASB), and the PCAOB to go before Congress annually for the next five years to discuss their efforts to reduce the complexity in financial reporting in order to provide investors with clearer and more accurate financial information. This includes reassessing complex

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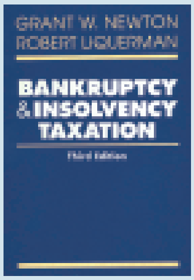
[BOOKS]

Bankruptcy Taxation



No one likes the idea of needing to go through bankruptcy, but if you find that the need arises, whatever the reason, one of the first places to look for guidance on the tax aspects of bankruptcy is Grant W. Newton and Robert Liquerman's *Bankruptcy & Insolvency Taxation*. This is one of a series of books on the topic of bankruptcy written by Grant Newton.

Bankruptcy taxation is a highly technical area of tax law, which Newton and Liquerman address in a detailed and illustrative manner, with the book organized around key topical areas. They begin by exploring the nature of bankruptcy and insolvency proceedings in the first chapter. The authors discuss the alternatives available to debtors to avoid bankruptcy, then introduce the reader to the various bankruptcy concepts covered in later chapters, such as reorganization, liquidation, and adjustments.

Newton and Liquerman delve into the various tax impacts of bankruptcy. The detailed contents at the beginning of each chapter are helpful in identifying those areas of particular interest to the reader.

The chapter on tax consequences to creditors of loss from debt forgiveness was particularly interesting. There the authors state, "The tax problems arising from debt cancellation are generally thought to be less complicated for the creditor than for the debtor....The tax consequences can become quite involved, however, where the debt is a nonbusiness debt, a security, or a secured debt." They explore the various losses arising from bankruptcy in depth and how the creditor addresses the tax consequences. This includes the concepts of worthlessness, foreclosure, and debt for stock in reorganization.

The authors include references to the tax code and regulations, revenue rulings, bankruptcy code, case citations, and other resources that they used to develop their interpretation of tax treatment. The illustrations included throughout are helpful, illustrating the application of tax procedures and various decisions regarding treatment provided by bankruptcy and other courts.

The original volume was revised and published just prior to the passing of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The publisher published the 2006 Supplement that augments the volume highlighting changes resulting from this new law.

This book will provide valuable guidance for those who find themselves involved in bankruptcy taxation for individuals or businesses. The materials also may be helpful for those anticipating bankruptcy since it will help identify actions to be considered with respect to the tax impacts of the decision. Whether you are in the planning stages or are a creditor or counselor, *Bankruptcy & Insolvency Taxation* is a valuable resource to refer to for guidance and direction in this highly technical area.—*Paul L. Shillam, CMA, CPA*

[TOP 10] *cont'd from p. 21*

Disaster Recovery Planning (DRP) and Business Continuity Management (BCM), which is a holistic management process that identifies potential threats to an organization and the impact those threats may have on business operations.

IT Governance, which is a structure of relationships and processes that direct and control an organization and help it achieve its goals by adding value while balancing risk vs. return over IT and its processes.

Securing and Controlling Information Distribution, which involves protecting and controlling the distribution of digital data.

Mobile and Remote Computing, which are technologies that enable users to securely connect to key resources anywhere, anytime, regardless of physical location.

Electronic Archiving and Data Retention, which involve technologies that enable appropriate archiving and retrieval of key information over a given period of time with improved efficiency and access to the information.

Document, Content, and Knowledge Management, which is the process of capturing, indexing, storing, retrieving, searching, and managing information electronically, including database management of PDFs and other formats.

For more in-depth information about the list, visit www.aicpa.org/infotech. ■

[NEWS] *cont'd from p. 21*

more than half said they will increase the number of domestic employees, and 40% said merger and acquisition activity will increase.

Europe. Of the European CFOs who responded to the survey, 48% are more optimistic about their country's economy now than they were last quarter, and 58% are more optimistic about their company's outlook. Also, they expect to increase capital spending and the number of employees this year. Their main concerns were cost of labor and a shortage of skilled labor.

Asia. Most Asian CFO respondents were optimistic about the outlook for their nation and their company. Their concerns were about high wage inflation and a possible recession in China and India in three to five years.

If you want more information and/or to see more survey results, contact Chris Privitt at Chris.Privitt@duke.edu or Jill Totenberg at jtotenberg@totenberggroup.com, or visit www.cfosurvey.org. ■

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

way to educate users and show them things they can use in their everyday work. I personally look forward each month to what they are going to publish and what little things I may learn that I didn't know before about Excel. I think this would be an excellent addition to *Strategic Finance* to show Accounting Management how to really use their spreadsheets.

Richard Queen

[SMALL BUSINESS]

The Weekly Lament

BY JERRY RADOWITZ

EVERY WEEK SOMEWHERE (everywhere?) in the United States the lament is heard: ***How am I going to meet payroll this week?***

It's the single biggest concern for many small businesses. If they can't pay their employees, the employees will quit, they will be unable to fill their customers' orders, and that would be the end of their business.

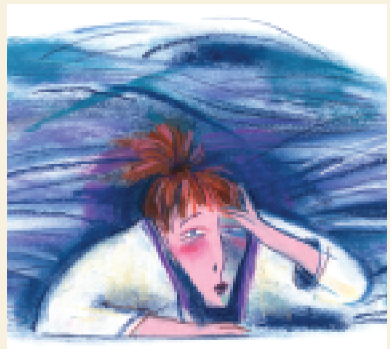
But does it really ever have to reach that point? Do they have a small credit line with their bank but don't use it because they don't want to pay interest? This interest, incidentally, would be less than $10 for one week on a $5,000 draw down at 8% for one week.

Can they lean on a long-time customer to pay their bill a week ahead of time and maybe overnight the check this time?

And what about the supplier who is causing them the cash crunch because his bill is due this week? Isn't it possible that if they spoke to him a few days in advance and told him his check will be a little late this month because of slow collections he'd say, "I understand. I've been there myself."?

If the owners are used to drawing a weekly paycheck or some other form of regular remuneration, *could they tap some personal funds to tide them over?*

And perhaps the most common reason for the lament: *Why didn't I*



project my cash requirements better?

Any one of the solutions suggested above would help once, but if the lament goes on week after week more drastic measures are needed.

- *Is the weekly payroll too high for the level of business being produced?*
- *Can the selling prices be raised modestly and not lose customers?*
- *Can costs be lowered by "shopping around" for lower prices?*
- *Where were the cash projections off? Did we spend more than we projected, or did we collect less?*
- *Did we ignore the budget and give in to the temptation of a "good" buy?*

The main purpose of this article is to get small business owners thinking. Many of them have been astute enough to solve more stringent business problems, so with their experience and a little foresight, their weekly lament should go away. ■

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

and outdated accounting standards; improving the understandability, consistency, and overall usability of the existing accounting and auditing literature; and developing principles-based accounting standards. The bill passed the House in 2005, but the Senate never took it up. Maybe the Senate didn't think the bill was consequential enough.

What was most noteworthy about the House floor vote was the comments of Rep. David Scott (D.-Ga.), a member of the House Financial Services Committee, who almost apologetically said, "Even without this legislation, the Financial Services Committee is already working to examine accounting and auditing issues and the work of each of these parties." He explained that the oversight plan for the 110th Congress includes reviews of the work of both the FASB and PCAOB.

Finance Industry Troubled by Some Aspects of Credit Rating Registration Proposal

Finance companies who assist corporations with raising money via debt and other offerings apparently have some major problems with the way the SEC wants to implement the Credit Rating Agency Reform Act of 2006. That law was passed by Congress last September because Congress was unhappy with the way the SEC was designating "nationally recognized statistical rating organizations" (NRSROs). The SEC did that by issuing what are called "no action letters," which have a very murky statutory basis. There are five NRSROs: Moody's Investors Service, Inc.; Fitch, Inc.; Standard & Poor's; A.M. Best Company, Inc.; and Dominion Bond Rating Service Limited. The business community thinks there ought to be more NRSROs. The Credit Rating Agency Reform Act makes that possible by changing the requirements for SEC designation of NRSROs and making the whole process more transparent. Under the new regulations, NRSROs would be required to register with the Commission, make public certain information to help individuals assess their credibility, make and retain certain records, furnish the Commission with certain financial reports, implement policies to manage the handling of material nonpublic information and conflicts of interest, and abide by certain prohibitions against unfair, coercive, or abusive practices.

But a big issue seems to be the exemption the SEC wants to provide for "notching" practices. Under the exception, an NRSRO may refuse to issue a credit rating to, or withdraw a credit rating of, a structured product if the NRSRO has rated less than 85% of the market value of the assets underlying the structured product. Gregory G. Raab, CEO, Axon Financial, says, "We believe the threshold provided under the exception needs to be lowered in order for abusive practices within the credit ratings market to be effectively constrained."

Adds Janet Tavakoli, president, Tavakoli Structured Finance, Inc., "While notching is a problem, there is a much bigger problem that the SEC hasn't even addressed on the topic of rated securitizations. There has been explosive growth in synthetic securitizations swamping cash issuance. The ratings methodologies for some of these products are so sloppy that I reject the ratings of all three 'nationally recognized' rating agencies and encourage others to do the same." ■