By Stephen Barlas, Bill Cordes, Karen Jett, Paul Johnston, Kathy Williams

G30 Report Calls for Financial Reform

By Kathy Williams

In July 2008, the Group of Thirty (G30), a private, nonprofit international body of senior financial experts from the public and private sectors and academia, launched a project to examine the global financial crisis and make any recommendations for change. The project was spearheaded by a steering committee led by Paul Volker, chairman of the trustees of the G30 and former head of the Federal Reserve.

The Group released its findings last month. Titled *Financial Reform: A Framework for Financial Stability*, the report addresses flaws in the global financial system and offers 18 specific recommendations to "improve supervisory systems by redefining the scope, boundaries, and structure of prudential regulation; enhance the role of the central banks; improve governance practices and risk management; address procyclicality via capital and liquidity standards; enhance accounting practices; strengthen the financial infrastructure; and increase coordination internationally."

According to Volker and G30 Chairman Jacob Frenkel, "While the analysis and recommendations deal in some instances with the need for legislation, regulation, and supervision, the Report is not directed toward questions about the appropriate focus and nature of national administrative arrangements….The Report, rather, focuses on how the financial system might reasonably be organized once the present crisis has passed, to better assure a reasonable degree of stability." Many people have suggested that this points to a major overhaul of banking regulations and a tightening of oversight.

There are four core recommendations in the report:

◆ **"Gaps and weaknesses in the coverage of prudential regulation and supervision must be eliminated."** The report notes that all systemically significant financial institutions, regardless of type, must be subject to an appropriate degree of oversight.

◆ **"The quality and effectiveness of prudential regulation and supervision must be improved."**

◆ **"Institutional policies and standards must be strengthened, with particular emphasis on standards for governance, risk management, capital, and liquidity."** The report also says that "regulatory policies and accounting standards must guard against procyclical effects and be consistent with maintaining prudent business practices." Some of the suggestions here involve making sure some members of boards of directors have financial industry and risk management expertise, ensuring that risk management and auditing functions "are fully independent and adequately resourced areas of the firm," and making sure that the risk management function reports directly to the CEO.

The report writers also touch on fair value accounting, saying that "Fair value accounting principles and standards should be reevaluated with a view to developing more realistic guidelines for dealing with less liquid instruments and distressed markets." They also call for principles-based standards that better reflect the business model of the regulated banks and that should be reviewed by and coordinated with bank regulators.

◆ **"Financial markets and products must be made more transparent, with better-aligned risk and prudential incentives. The infrastructure supporting such markets must be made much more robust and resistant to potential failures of even large financial institutions."** Some of the recommendations under this category involve market supervision, credit underwriting stan-

BOOKS

Improving Employee-Manager Relationships

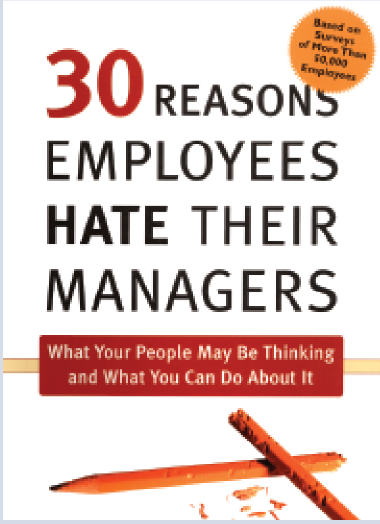
Beyond having a catchy title, *30 Reasons Employees Hate Their Managers* also contains some very relevant information for anyone in a supervisory position. The 30 reasons were gathered by Bruce Katcher over the past 15 years by reviewing and compiling the results of 50,000 surveys completed by employees from 65 organizations. With this type of resource, it becomes very hard to argue with the conclusions he presents.

This book is divided into five parts:

- Employees are treated like children
- Employees aren't respected
- Employees aren't receiving what they really need
- Employees feel unappreciated
- W-o-r-k should be more than a four-letter word.

These themes are further broken down into individual chapters that highlight specific complaints such as "I'm not paid fairly" or "I am afraid to speak up."

Regardless of whether you've managed people or have had a manager, it's inevitable that you will see multiple situations that seem familiar to you. One of the most vexing from my past involved the chapter "Why don't they get rid of all of the deadwood around here?" I remember many times that I had to negotiate the internal red tape required to terminate the employment of individuals who weren't doing their job. Some of the intricacies were to legally protect the company, but I believe that much of



the resistance I met came from the fear that "taking strong action might destroy the collegial atmosphere that made the work environment so special." Katcher makes a strong argument that this viewpoint is dangerous. He suggests taking action in cases like this, beginning with "identify the root cause of the problem." He believes in working to solve the problem and, if it doesn't go away, moving quickly to termination. I was particularly impressed with his advice to "retrain supervisors in how to discipline problem employees."

Each chapter begins with a statistic from his survey database. This is followed by a detailed explanation of the employee complaint and usually illustrated with an actual situation representative of the complaint. Katcher explains why it's relevant for employers to care and recognize that their staff members feel this way. After exploring the behavioral, psychological, or management theories underlying the complaint, he presents practical solutions for addressing the concern.

30 Reasons Employees Hate Their Managers is well organized, clearly written, and easy to read. It's based on sound management theory and reflects the author's background in industrial/organizational psychology. Katcher's viewpoint is succinctly stated in his acknowledgement that "when employees refuse to fully commit to the goals of your organization, productivity declines, customer satisfaction suffers, and profits are almost always adversely affected." This quote underlies much of the discussion and advice Katcher provides.

Unfortunately, a more apt title for the book would be *20 Reasons Employees Hate Their Managers*, as many of the chapters use extremely similar examples and rely on the same theories to explain them. Therefore, the book is best read concentrating on the issues you are facing rather than from front to back as I read it.

I wouldn't let this weakness in the book deter you from reading it. It's a great reference manual that focuses on the value employees can and should bring to the organization. And, better yet, it explains how you as a manager can better understand your employees and help to bring that value out in them.—*Karen L. Jett, CMA, Jett Excellence, Kjett@JettExcellence.com*

SFbulletin

dards, and off-balance-sheet vehicles.

For more information about the recommendations and to find out how to obtain a copy of the full report, visit www.group30.org.

NEWS

IFAC Issues Paper on Standards Setting

The International Federation of Accountants (IFAC) has issued a paper that describes the international standards-setting process. Titled *International Standard Setting in the Public Interest*, it explains how public- and private-sector organizations share the responsibility to produce high-quality standards that are in the public interest. Although the emphasis is on auditing standards, the explanation of the process and structures of the independent international standards-setting bodies is applicable to most accountants.

To download this policy position paper, visit www.ifac.org and look under "Of Special Interest" on the home page.

GOVERNMENT

Schapiro Era at SEC

By Stephen Barlas, Editor

Mary Schapiro, the new head of the Securities & Exchange Commission (SEC), doesn't have much of a profile on financial reporting issues, coming as she does from the Financial Industry Regulatory Authority. That 3,000-employee agency is charged with fining stock brokers for violations of New York Stock Exchange and SEC rules. But Schapiro was an SEC commissioner and interim chair in the early days of the Clinton administration, so she is something of a "known quantity." David Chavern, executive vice president and chief operating officer of the U.S. Chamber of Commerce, calls her "the right pick at the right time." He adds, "Ms. Schapiro has the credibility to move the agency away from its recent shortcomings and refocus on strengthening its regulatory and enforcement efforts to restore credibility to our markets." What Chavern doesn't say is that the Chamber and every other business group with interests before the SEC were breathing a deep sigh of relief because they feared President Obama would nominate a potentially antagonistic figure—such as New York State Attorney General Andrew Cuomo, former SEC Commissioner Harvey Goldschmid, or, heaven forbid, maybe even Damon Silvers, associate general counsel of the AFL-CIO.

To a large extent, it will be up to Schapiro to pick a chief accountant, and that selection may say more about where the SEC is headed under Obama than his pick of Schapiro. Many interested parties, including some business groups, considered Chris Cox's appointment of

LETTERS

A Taxes Error?

In the tax column article appearing in *Strategic Finance*, January 2009, I believe there is an error in the second example. When addressing the repayment of the tax credit, the calculation should be based on the initial credit taken by Genie ($1,875) in the first example and not the maximum allowable credit of $7,500. The example gave the calculation to determine the amount of her recapture as six years x $500 per year, resulting in a $3,000 additional tax liability when it should have been six years x $125 per year ($1,875 / 15 years), resulting in a $750 additional tax liability. Or is the intention of the of the HAT Act to provide additional tax revenue to the Government? Thank you.

Paul Johnston
Accounting Manager, AAC St. Paul
Trane Commercial Systems
Ingersoll Rand

CMA Exam Question Writers Wanted

If you would like to use your experience and knowledge to help make the Certified Management Accountant (CMA®) exam better for everyone, then now is your chance. The Institute of Certified Management Accountants (ICMA) updates the exam questions on a regular basis and is seeking people to write some new ones.

Both practitioners and academics are encouraged to serve as subject-matter experts to develop the exam questions. Those who write the questions work on an independent, contracted basis providing multiple-choice questions. They also write scenarios and case studies with associated essays and/or calculation questions. Question writers are compensated for each accepted question, essay, or case study depending on the type and quality of the question submitted.

For more information and to receive an application, please contact Bill Cordes, ICMA exam development manager, at (800) 638-4427, ext. 1555, or via e-mail at wcordes@imanet.org.

Conrad Hewitt, who left the SEC in January 2009, as a "dumbing down" of the chief accountant's office, as one Washington insider describes it, adding "I'd be surprised if they scraped the bottom of the barrel again." Hewitt, who had been out of accounting for a while and was plucked from a job as banking regulator in California, came with no experience on SEC issues, and his credibility suffered from the start. When Schapiro does make her choice for chief accountant, a key thing to look for is the person's stance on the SEC's adoption of International Financial Reporting Standards (IFRS) reporting for U.S. companies. Cox had started that ball rolling, but that ball will slow down considerably under Schapiro and may come to a dead stop depending on the identity of the new chief accountant.

Some pending issues will speed up toward resolution, particularly those regarding proxy voting. In that regard, look for Schapiro to quickly resurrect a NYSE Euronext request to prohibit brokers from voting proxies for shareholders whose stock they hold when the shareholders don't give the brokers voting instructions. Investor advocacy groups such as the Council of Institutional Investors (CII) have long opposed the broker-may-vote rule and have pressed repeatedly for it to be abolished. "Allowing brokers to cast votes for uninstructed shares skews voting results and is akin to stuffing the ballot box for management as broker votes almost always are cast in favor of management's proposals and candidates for board seats," says a CII statement. Cox had refused to even put out the NYSE Euronext proposal for public comment. Expect Schapiro to do that and to finalize elimination of the broker-may-vote rule. Then expect the new chair to move on to broader proxy access reform.

GOVERNMENT

SEC Clears XBRL Filing Requirement

One Chris Cox SEC initiative unlikely to be reversed is his drive to get corporations to file financial reports using eXtensible Business Reporting Language (XBRL). The SEC issued a final rule in mid-December that requires domestic and foreign large accelerated filers that use U.S. GAAP and have a worldwide public float above $5 billion to file using XBRL for their first quarterly or annual report for fiscal periods ending on or after June 15, 2009. About 500 companies will be in this first wave. In year two, all other domestic and foreign large accelerated filers using U.S. GAAP would be subject to interactive data reporting. In year three, all remaining filers using U.S. GAAP, including smaller reporting companies, and all foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB) would be subject to the same interactive data reporting requirements. The initiative has been pretty well vetted over the past few years, so there was nothing terribly controversial about it, particularly because the SEC took corporate concerns into account by delaying implementation six months and granting companies a shield from liability for XBRL data. That shield did result in Commissioner Luis Aguilar dissenting in the 4-1 vote for adoption, which turned out to be the only discordant note in the XBRL adoption proceeding. **SF**