SF bulletin

By Amanda Balbi, Stephen Barlas, Letitia Meier Pleis

GOVERNMENT

U.S. Chamber of Commerce Wants the SEC to Revise Proposed Standard

By Stephen Barlas

The U.S. Chamber of Commerce has big problems with a new auditing standard proposed by the Public Company Accounting Oversight Board (PCAOB). At issue is Proposed Auditing Standard (AS) No. 18—*Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards*. The proposed changes cover a number of issues, including new responsibilities for auditors related to examining a company's executive compensation. The PCAOB developed the new standard because "related party transactions have been contributing factors in numerous prominent financial reporting frauds over the last few decades…Corporate scandals involving these areas, such as financial reporting frauds at Enron Corporation, Tyco International, Ltd., Refco, Inc., and WorldCom, Inc., undermined investor confidence, resulted in significant losses for investors, as well as the loss of many jobs for employees. These critical areas have continued to be a contributing factor in more recent cases."

The standard will impose new requirements on audits of companies of all sizes. But the remaining controversial issue—three years and two drafts after the PCAOB began working on this new standard—concerns a narrower issue: whether the new auditing standard should apply to emerging growth companies (EGCs), a class of smaller businesses established by the Jumpstart Our Business Startups (JOBS) Act.

The Chamber's Center for Capital Markets Competitiveness (CCMC) is trying to convince the Securities & Exchange Commission (SEC) to send the proposed standard back to the PCAOB for a more thorough, specific economic analysis of the costs it will impose on EGCs. The JOBS Act makes economic analysis a necessary prerequisite for applying new PCAOB auditing standards to any EGC audit. In 2012 when the PCAOB introduced the first draft of this new standard, 579 SEC registrants identified themselves as EGCs. And according to Liam Sullivan at Audit Analytics, 422 of the companies that have gone public between 2012 and May 2014 identified as an EGC at the time of their IPO.

Tom Quaadman, vice president of the CCMC, says, "The proposal contains no substantive analysis of the economic impact of the proposed requirements on EGCs, EGCs vis-à-vis other companies, or companies generally…Namely, we do not believe that the PCAOB has done a thorough analysis as required by the JOBS Act; and, we believe that the Proposal fails to meet the threshold required by law."

Quaadman also thinks the word- *continued on page 20*

Sharing Your IMA Life

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ing of the proposal in reference to changes it makes to Auditing Standard No. 12—*Identifying and Assessing Risks of Material Misstatement* could cause problems for all public companies, not just EGCs, with regard to their executive compensation policies. The changes include new information that an audit would make public.

House SEC Reform Bill Awaiting Senate Action during Lame Duck Session

It's questionable whether the Senate will find the time in a short "lame duck" session after the November elections to vote on the sprawling SEC reform bill the House passed in September with bipartisan support. That bill contains a couple of key provisions easing financial regulation. The Promoting Job Creation and Reducing Small Business Burdens Act (H.R. 5405) passed the House by a vote of 320-102, meaning it had some fairly significant Democratic support. That would normally bode well for Senate passage, except the lame duck session will have some much more contentious, much bigger issues taking up its very limited time.

H.R. 5405 contains 11 separate bills approved by the House Financial Services Committee. One is called the Customer Protection End-User Relief Act (H.R. 4413). It incorporates two separate proposals to exempt "end users"—and the separate treasury units serving many subsidiaries of the same corporation—from some of the derivatives reporting and adherence portions of the Dodd-Frank Act. Another provision provides an optional exemption for EGCs and small public companies from the requirement to file their information in eXtensible Business Reporting Language (XBRL).

Michael Bopp, a Washington-based lawyer who represents the Coalition for Derivatives End-Users, says, "The Coalition is optimistic that the Senate will take up and pass our margin and centralized treasury unit bills during the lame duck session. There are lots of potential vehicles to choose from and we defer to the Senate on which works best. The Senate is broadly supportive of our bills and understands the need to protect end-users from bank-like regulation and to give companies the certainty they need to grow and create new jobs." It's a bit of a stretch to call the jumbo H.R. 5405 a "job creation" bill. But supporters are attaching that moniker in an effort to persuade Democrats and get the bill passed by the Senate. On the other hand, there may be enough Democrats in the Senate who are swayed by complaints on the House floor from Rep. Maxine Waters (D-Calif.), the top Democrat on the House Financial Services Committee, that the bill is something of a monstrosity.

Sustainable Investing Becoming Mainstream

By Amanda Balbi

A survey of financial advisors and investment brokers shows that sustainable, responsible, impact (SRI) investing, which typically incorporates an evaluation of environmental, social, and governance factors into the investment decision-making process, continues to grow in importance. The online survey, "First Affirmative Survey on the Views of Financial Professionals About SRI," was conducted by the First Affirmative Financial Network and is based on responses from 1,913 financial professionals.

The top reason cited for offering SRI options is because clients request it. According to the survey results, much of the demand is being driven by the Millennial and Generation Y groups. Almost 50% of respondents agree that the financial industry will need to change in order to serve these younger groups.

Of the respondents who offer SRI options, 31% of them believe SRI investing will grow in the next five years. In addition, 25% of respondents are more open to offering SRI options now than five years ago.

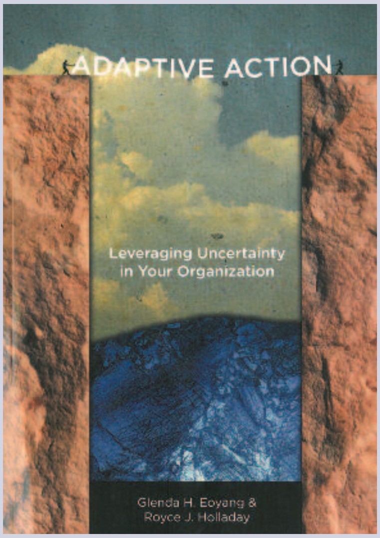
The survey is available online at www.firstaffirmative.com/resources-news/news/first-affirmative-survey-on-the-views-of-financial-professionals-about-sri.

BOOKS

Overcoming Uncertainty

Chaos and complexity surround us. We must face them in our organizations, in society, and even in our personal lives. They can leave us stuck with what appears to be insurmountable problems. Good leaders must overcome these problems to find success. In *Adaptive Action: Leveraging Uncertainty in Your Organization*, authors Glenda Eoyang and Royce Holladay introduce a simple, common-sense process that leaders can use to take reflective action and achieve success in the face of chaos and complexity. Adaptive Action is a process that involves recognizing patterns in real time to make sense of what's going on. The Adaptive Action cycle consists of three simple questions: What? So What? And now what?

"What?" requires careful observation. Eoyang and Holladay say, "When you ask What? in the course of Adaptive Action, you become conscious of how best to collect and sort through data to distinguish the information from the random noise." "So what?" requires careful consideration of the options and implications. It involves deciphering the signals within the complexity and supporting shared decision making. "Now what?" ignites the effective action. Eoyang and Holladay describe how to find rational paths toward effective action even during times when outcomes are unpredictable. The Adaptive Action framework is a guide through uncertainty. They also explain how to get a diverse set of independent agents moving in a cohesive pattern toward shared goals while allowing each agent to keep its individual identity. This is an important component when dealing with any group setting. Teams only work well when they embrace their differences rather than simply trying to ignore them.



Adaptive Action is a process that involves recognizing patterns in real time to make sense of what's going on.

Going through the process once may not be enough, and after it unfolds, it might be discovered that the complexity requires multiple Adaptive Action cycles that link together to respond to the changing system. Using this simple process, you can find solutions to your problems and improve your company's performance.

After presenting the framework, Eoyang and Holladay illustrate nine examples of the process being used successfully in personal, professional, and political challenges. They talk about successful implementation of models and methods in treating Alzheimer's patients by working with patients and caregivers, in instructional design from two individuals collaborating to create a consulting business around Human Systems Dynamics, and in surviving Lean and Six Sigma implementation by focusing on the human side of implementation. Other examples show how the process works for leadership in school reform, complex change, and work/life transitions. Then they provide examples of the process at work with self-organizing teams connecting social change and work, transcending cultural bias, and public policy advocacy. After illustrating the process, readers are ready to employ this new toolkit to their own complex situations.

Overall, the book prepares you very well for dealing with uncertainty and complexity. By getting into the theory behind the Adaptive Action framework, Eoyang and Holladay add considerable credibility to the process, though some readers might not find that discussion engaging. I recommend the book to anyone trying to deal with complexity either within their organization or in their personal lives.

—Letitia Meier Pleis