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ARTICLES

Financial Accounting Foundation Considers Changes to Streamline FASB Process; Emphasizes Need for Independent Accounting Standard Setter

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The Financial Accounting Foundation, the body that oversees, appoints members and funds the activities of the Financial Accounting Standards Board, has announced that it will strengthen its commitment to a strong, transparent and rigorous system of financial accounting standards for Americas capital markets. The FAF planned to issue for public comment a set of proposed changes to help achieve that objective.

FAF Trustees realize that in the minds of some investors the system of accounting standards and the audited financial statements that must comply with them are being questioned, said Manuel H. Johnson, chair of the FAF board. We understand that the FAF is an essential part of the fabric of the American accounting systems framework, and the Trustees have determined that the FAF will do everything within its power both to review and improve the procedures and policies within its official mandate and to participate, where appropriate, in the larger debate about how to strengthen all parts of that system.

The Board of Trustees met in Jan. and Mar. to discuss these issues and to consider how best to fulfill its responsibilities in the public interest in an evolving regulatory environment.

Changes to Streamline Process
After a review of recent events, the Trustees determined that there is a need for the FASB to be more flexible in responding to change and to increase the efficiency of its standard-setting process to enhance financial reporting standards. The Trustees considered the need for accelerating the standard-setting process by improving the FASBs efficiency without compromising the quality of its open due process. To meet that objective, the Trustees approved a proposal for public comment that includes the following:

- Reduction in the size of the FASB from seven to five members.
- A simple majority voting requirement of 3-to-2 for the five-member board. The current board has a 5-to-2 supermajority requirement.
- A recommendation to the FASB that it expose proposed standards for shorter comment periods.

The Trustees will carefully consider responses to the proposal before deciding on a course of action. If approved, the proposed reduction in the size of the FASB would transition over time and be achieved through attrition. Comments also will be sought on the composition of a five-member board. The current board is composed of three members from public accounting, two from industry or the preparer community, another from the investor or user community and one from the academic community.

In reflecting on the action under consideration by the FAF to enhance the FASBs process, Johnson remarked, We have a responsibility to investors and we take it very seriously. The Trustees are committed to preserving the independence of private-sector standard setting and will continue to consider improvements to the process in as timely a manner as possible.

Independence
At its Mar. meeting, the Trustees also reviewed the importance of having an independent accounting standard setter. Much of that review centered on a position paper entitled The FASBs Role in Serving the Public, A Response to the Enron Collapse that was prepared by FASB Chair Edmund L. Jenkins. The paper, covering a broad range of issues, emphasizes the necessity of having an independent, private-sector accounting standard setter in maintaining efficient capital markets. It is available on the FASBs Web site:

www.fasb.org

The FASB noted that, despite significant resistance from some of those affected, it believes it has made substantial improvements to financial reporting that have resulted in greater transparency of financial information. Some examples drawn from the Jenkins paper are the following:

- Requiring reporting entities recognize liabilities for retirement benefits when those entities promise them to employees rather than when they later pay them.
- Requiring significant disclosures about the separate operating segments of an entitys business so that investors can evaluate the differing risks in the diverse operations.
- Requiring that derivative instruments and hedging transactions be reflected in financial statements which, previously, were not reflected.
- Requiring that the acquisition of one company by another be accounted for in the same way for all entities and that the total amount paid for the acquisition be reflected in the financial statements. In the past, that was not often the case.

In commenting on current auditor reform proposals, Johnson said, While the Trustees are interested, concerned and highly supportive of efforts to improve the independence and effectiveness of the auditing system, the FASB has no authority or responsibility for auditing matters. And as part of the broader financial reporting system, we believe it is critical that the FASB remain an independent, private-sector organizationfree from political pressure. Independence is critical to developing credible and transparent information for investors and is essential to the vibrancy of the U.S. capital markets.

Vital to the independence of a private-sector standard setter is broad-based funding support from constituents in order to avoid undue influence from any single source, the FASB says. In commenting on this issue, Johnson said, Now more than ever, all of our constituentsand especially the investor communityshould view this as an important opportunity to support high-quality financial reporting standards, and we strongly encourage broad participation in the contribution process.

Approximately two-thirds of the FASBs funding comes from the sale of publications and licensing agreements. The remaining one-third is from a broad base of contributors, including the public accounting profession, and the corporate, investor and academic communities.

A document seeking public comments on the proposed changes is available on the FASB site. The comment period ended Apr. 17, and, at press time, the FAF Trustees were scheduled to meet again on Apr. 23.

10 New Members Named to the Yellow Book Advisory Council

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David M. Walker, Comptroller General of the United States and head of the U.S. General Accounting Office, has named 10 new members to the Advisory Council on Government Auditing Standards (the Yellow Book) who will provide advice and guidance on government auditing standards. The purpose of the Advisory Council is to work with the GAO to keep the auditing standards current through the issuance of revisions and guidance.

The 10 new members will replace those whose terms have expired. They will join the 12 members previously appointed to serve on the Council. Collectively, they provide strong knowledge of financial, compliance and performance auditing and program evaluation at all levels of government, the GAO says. The new members, selected from nominations received from relevant professional organizations, will serve for a three-year term, to provide continuity in membership.

The 10 new members of the Advisory Council on Government Auditing Standards are:

- Debra K. Davenport, Auditor General, State of Arizona.
- Dr. John Engstrom, Professor, Northern Illinois University.
- Richard L. Fair, State Auditor, State of New Jersey.
- Dr. Ehsan Feroz, Professor, University of Minnesota.
- Gregory H. Friedman, Inspector General, U.S. Department of Energy.

- Harold L. Monk, Jr., Managing Partner, Davis, Monk & Company, Gainesville, Florida.
- Robert M. Reardon, Jr., Investment Officer, State Farm Insurance Companies.
- Gerald A. Silva, City Auditor, City of San Jose.
- Dr. Daniel L. Stufflebeam, Director, the Evaluation Center, Western Michigan University.
- Nikki L. Tinsley, Inspector General, U.S. Environmental Protection Agency.

The 12 members previously appointed and who continue to serve on the Council are:

- Chair: John R. Miller, Partner and Vice Chairman, KMPG LLP.
- Ernest A. Almonte, Auditor General, State of Rhode Island.
- Ralph Campbell, Jr., State Auditor, State of North Carolina.
- Bert T. Edwards, Executive Director, Office of Historical Trust Accounting, Department of the Interior.
- Dr. Jesse W. Hughes, Professor Emeritus of Accounting.
- Dr. Rhoda C. Icerman, Professor of Accounting, Florida State University.
- Auston G. Johnson, State Auditor, State of Utah.
- Sam M. McCall, City Auditor, City of Tallahassee.
- Stephen L. Morgan, City Auditor, City of Austin.
- Everett L. Mosley, Inspector General, U.S. Agency for International Development.
- Barry R. Snyder, Inspector General, Federal Reserve Board.
- Jacquelyn L. Williams-Bridgers, Private Consultant.

FASB Chair Jenkins Comments on Proposed Legislation

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In commenting on two bills recently introduced in Congress that include provisions concerning the Financial Accounting Standards Board, Edmund L. Jenkins, FASB chair, stated, The commitment to the FASBs independence and open due process that is expressed in the two bills is very important as we address issues related to the Enron matter.

We appreciate the commitment to supporting and strengthening the FASBs independence embodied in the proposed legislation, Jenkins added, but we caution

Congress that any legislation mandating particular actions or procedures by the FASB can compromise the very independence that the legislation seeks to enhance.

The Investor Confidence in Public Accounting Act of 2002 (the Investor Act), introduced in Mar. by Senators Christopher J. Dodd (DConn.) and Jon Corzine (DN.J.), would require that the Securities and Exchange Commission recognize generally accepted accounting principles established by the FASB if certain qualifications are met. Those qualifications include that the FASB be funded solely by fees and charges assessed against each issuer and by revenues collected from the sale of materials and publications produced by that body. It also would require that the FASB submit an annual report to Congress and other parties.

The Truth and Accountability in Accounting Act of 2002 (the Accounting Act), also introduced in Mar. by Representatives John D. Dingell (DMich.), Edolphus Towns (DN.Y.) and Edward J. Markey (DMass.), would require that the SEC annually conduct a review of unresolved accounting standards issues and issue a report to Congress and the FASB describing those issues. It also would mandate that the FASB submit to the SEC and Congress a response to the SEC report.

In further responding to the Investor Act and the Accounting Act, Jenkins stated, We appreciate the sponsors support of, and commitment to, private-sector accounting standard setting. And, while we are confident that the FASBs current funding structure has not impaired our independence, we do support the Investor Acts provisions creating a fee-based source of funding for the FASB.

Despite general support of a fee-based source of funding, Jenkins cautioned that to accept government-collected fees as a replacement of the current private-sector contributions to the not-for-profit Financial Accounting Foundation that has historically funded the FASB, such fee-based funding must be free of substantive conditions, adequate in amount, and not subject to the type of Congressional or executive branch review that invites interference with the technical decisions and independence of the FASB.

As to the other provisions of the bills, Jenkins cautioned, Even limited and well-intentioned provisions like those contained in the Investor Act and the Accounting Act could compromise the independence of the FASB and the transparency of information that investors receive. The greater the involvement of Congress and the executive branch in the activities of the FASB, the greater the potential for harmful political pressures on the standard-setting process. As shown in the past, those pressures inhibit objective, neutral and timely resolution of important financial reporting issues. Resolution of accounting issues in an independent manner is essential to maintaining and enhancing the highest quality accounting standards in the world.

The standards developed by the FASB over the past quarter century have provided the backbone for our nations vibrant capital markets because of the transparent, credible and reliable nature of the information that results from their proper application, Jenkins said. Impairment of the FASBs independence by legislation could have a negative impact upon the quality of that information and, consequently, the longstanding competitive advantage of the U.S. capital markets.

We look forward to working with Senators Dodd and Corzine, Representatives Dingell, Towns and Markey, and others to ensure that the FASB continues to efficiently and effectively fulfill its mission of establishing and improving accounting standards that, when followed, result in the transparent, credible and reliable information needed by todays investors, he concluded.

Microsoft Becomes First Technology Company to Report Financials in XBRL Standard

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Microsoft Corp. has become the first technology company to publish its financial statements on the Internet using eXtensible Business Reporting Language (XBRL), an XML-based framework for financial reporting. Along with the AICPA, Microsoft is a member of the XBRL Consortium, an international group of more than 140 of the worlds largest accounting, technology, government and financial services bodies devoted to developing and promoting the adoption of XBRL as a standard. By publishing financial statements in XBRL, Microsoft hopes to provide easier access to the companys financial data and more efficient analysis capabilities to investors, analysts, accountants, regulators and others in the financial supply chain. The companys second-quarter earnings results, as well as the first- and second-quarter 10-Qs and fiscal year 2001 10-K statement, are published as XBRL documents on its Web site:

www.microsoft.com/msft

XBRL is designed to represent a major step forward in the preparation, publication, exchange and analysis of financial data. Like XML, XBRL is a freely licensed standard that can be used across any platform, software format or technology. The creators believe that the financial community stands to benefit greatly from the increased adoption of XBRL, which demonstrates how XML can be extended to solutions for horizontal and vertical markets.

XBRL facilitates straight-through reporting of business information and unclogs the data pipeline so that information flows freely, efficiently and cost-effectively to end users of financial data, said Barry Melancon, AICPA president and chief executive officer.

More information about XBRL can be found at:

www.xbrl.org

Divorce Conference

Divorce Conference

The AICPA and the American Academy of Matrimonial Lawyers are holding their first National Conference on Divorce May 16 and 17 in Las Vegas. The conference, Property and Complex Financial Issues, is geared for both financial and legal professionals and will cover a broad array of financial and legal issues surrounding divorce. Several pre-conference workshops will be held on May 15.

The fair disposition of assets for a divorcing family with significant financial assets requires strong interdisciplinary knowledge in both the legal and financial fields and a close working relationship between lawyers and accountants. This conference will foster that interdisciplinary knowledge and those relationships.

As marital assets have been defined more broadly and become increasingly complex, such as stock options, the conference will be an excellent opportunity for accountants and lawyers to improve their knowledge about both valuing marital assets as well as fairly dividing those assets, according to J. Lindsey Short, Jr., Academy president.

Among topics to be covered by recognized national experts will be:

- Discovery of financial assets.
- Stock option valuation and distribution issues.
- Business valuation.
- Use of forensic financial testimony in both depositions and trials.

For more information:

888/7777077

www.cpa2biz.com/conferences

2002 Circular A-133 Compliance Supplement Is Available

2002 Circular A-133 Compliance Supplement Is Available

The Compliance Supplement, Appendix B, to OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, was issued in June 1997 and is updated annually. Notice of availability of the 2002 Circular A-133 Compliance Supplement was published in the Federal Register in Apr. The Supplement is now available online at the Office of Management and Budget Web site. Printed copies are also available.

www.whitehouse.gov/OMB, then select Grants Management

Executives Know Employees Have Too Much Work, Survey Shows

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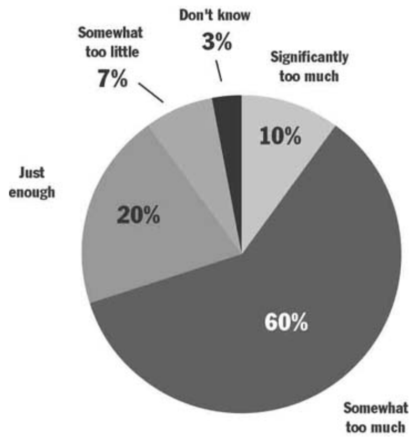
Workers today may have too much to do and too little time to do it, a new survey suggests. Seventy percent of executives polled said the average employee is at least somewhat overburdened. One in 10 said the workload is significantly too heavy.

The survey, developed by OfficeTeam, includes responses from 150 executives with the nations 1,000 largest companies.

Executives were asked, Would you say the average employee has too much to do or too little to do in his or her job? Their responses:



Many people are more productive when theyre juggling multiple tasks, but the amount of work should be within reason, said Liz Hughes, executive director of OfficeTeam. Project loads that are consistently unmanageable can lead to burnout and the associated problems of reduced morale, high turnover and increased hiring and training costs for businesses.

To address these problems, she suggests:

- Talk to staff. How do employees view their responsibilities? Are unrealistic deadlines affecting the quality of their work or level of job satisfaction? Their perceptions may be very different than yours.
- Ask for activity reports. Review each employees tasks to determine which projects are taking the most time. Make sure the most critical initiatives are getting the majority of resources.
- Reward smart work habits. Someone who is putting in long hours may be working hard, but is he or she also managing time wisely? Clarify your expectations with employees, and take steps to recognize teamwork, innovative ideas and problem-solving skills.
- Keep your door open. Maintain an environment in which employees are not afraid to ask for help when workloads become too heavy. Be willing to reallocate resources as needed.

IRS Taking VISA

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The Internal Revenue Service has added VISA cards to its credit card program. Begun in 1999, the program now allows taxpayers to use VISA, MasterCard, American Express or Discover Cards for federal tax payments. Tax form instructions and IRS publications, such as Form 1040, Form 1040-ES, Form 4868 and Publication 17 have details on making credit card payments.

As of mid-March, the IRS had received more than 20,000 credit card charges, up 13% from the same period last year. The credit card charges totaled more than $55 million.