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Hello everyone. It is a pleasure to meet you all and to have this opportunity to make a few comments. I would like to thank Bob DeSantis for providing IMA with this opportunity. He and I have met and spoken on a number of occasions and we were pleased to have Bob speak at our annual conference in Las Vegas in June this year where he was well received.

With me this evening is Bill Brower, this year's Chair of IMA. We also invited Pascal Desroches, the chair of our Financial Reporting Committee, but he is out of town this evening. We are delighted to have nominated Frank Minter to FAF and that he has and continues to make a valid contribution in this his second term as a trustee.

Of the 160 members of IFAC, IMA ranks among the top 10 in number of members. IMA represents all management accountants and finance function staff who work inside organizations. As you may know, IMA is an educational not-for-profit organization, which sponsors the Certified Management Accountant or CMA certification, the most appropriate certification for professional accountants who work inside organizations.

IMA has been involved with standard setting since 1973 when the process became independent of the founding organization. IMA was a founding member of XBRL US and continues to be a member. IMA is an active member of the COSO board and is actively involved with research into SOX 404 implementation and its unintended consequences as well as the evolving solution in management guidance. IMA has and continues to be deeply interested in financial accounting. Indeed, our Financial Reporting Committee is the mostly

broadly representative group of “accountancy” in the United States. With specialized representatives from a veritable who’s who of corporations as well as the major accounting firms, universities and consultants. We believe our FRC have broad, knowledgeable and extremely qualified representation.

Sadly, IMA membership has been in a constant decline trend over the last 20 years, such that our numbers in the U.S. are half what they were in 1990. There is a bright spot in our international membership which has grown to almost 10,000 members in the last 7 years. But decline in the accounting profession in the U.S. is not limited to the declining number of management accountants. For example, the number of PhD’s in accounting are half what they were 10 years ago and that the numbers of graduating PhD’s are insufficient to replace the number of professors who are due to retire in the next 5 years. AAA has issued a report that acknowledges there is an emerging crisis in accountancy education. There have been a number of such reports over the last 20 years, starting with the Bedford Report, the Accounting Education Change Commission and Charting the Course Through a Perilous Future. There continues to be a question about the state of accountancy in general in the United States, perhaps, rather, a crisis. Obviously, this is a subject in which we all have a vested interest. However, it is not clear to me that those reports characterized the issues in the way that we see them.

Let me characterize my comments with an analogy of a bridge construction project... Imagine you are building a bridge and you don’t bother to educate and certify the welders, and you don’t educate and certify the riveters. But, you do educate and certify the inspectors, who aren’t central to the design and building process. They are just there to inspect the bridge after the fact, with a broad checklist. If the bridge falls down, who is responsible? Surely, not the inspector? Is it not true that quality has to be built from within? If the bridge falls down, it’s because it wasn’t built properly, not because of the inspector. Isn’t it also true of corporations? The only way to have a successful audit outcome is by having properly trained and certified professionals working inside organizations in the first place.

Some of you no doubt will have noted my British accent. What you might not realize though is that I live in Canada. So, here I am, a British person who lives in Canada and runs an American institution speaking to one of the most influential group of representatives of the “accountancy profession” in the world. In Britain and Canada the number of Certified Management Accountants is 10 times greater per capita than in the US. In Germany, the “controller” profession dominates profession of accountancy, where their engrained “accountancy” education system produces high quality professionals for business. There is no emphasis on audit tax and financial reporting in the dominant “Controlling” education in Germany. There are many other similar conditions elsewhere in the world, especially so with the number of members and students of the rapidly growing ACCA now at the 350,000 mark and the management accounting representative body in Australia with its 110,000 members.

In looking at this greater emphasis on management accounting in other countries, it sheds light on the current accounting crisis in the U.S., which stems from a lack of awareness. Let me explain with another anecdote. When I get on an airplane in the U.S. and sit next to a stranger, strike up a conversation, and the person asks me “So, what do you do for a living?” and I answer that I am an accountant, the inevitable response is “Oh, you’re a CPA?” or “Hey can you do my taxes?”. To which I say no and then they say in a doubting and misunderstanding manner, “So what kind of accountant are you?”. Ladies and gentlemen, this would not happen in other parts of the world. Elsewhere, the stranger would follow-up with “So, what kind of accountant are you?” Except in Germany of course.

If you happen to be a CPA you might take some pleasure from being on the more well-known side, but I believe that is a somewhat short-sighted perspective. An old friend of mine used to say “nothing fails like success”! When a system gets out of balance, things go wrong. We all know what led us to Sarbanes Oxley, and we certainly do not have Section 404 implementation even remotely right yet. The unfortunate news is the system is clearly not balanced. However, the

good news is that we can help change it to balance the accountancy profession.

Accountancy, Ladies and Gentlemen, is a whole profession, which, at its core is mostly about facilitating business performance, doing accounting, supporting good decision making, business planning and in the design, implementation and management of internal controls. Raising capital and ensuring a risk relevant return on investment are fundamental to that process. By the way, U.S. Department of Labor statistics identify that there are nearly 5 million finance function workers inside organizations, which represent more than 90% of our “accountancy community”. Less than 10% are involved in audit, tax and external financial reporting type activities. Financial reporting, audit and tax are certainly important, but hardly the only or even the most important facet of economic development or social importance. No one would argue the fact that it takes more people to “do the work” than it does to “check the work.”

In truth, in the U.S. the massive perception for the industry is that the only professional accountancy designation of merit is that of the CPA. How did this happen and how is it perpetuated? We can begin by looking at universities where the curriculum of the undergraduate degree in accounting is dictated largely by the state licensing boards and NASBA. Both are, of course, focused only on meeting public accounting needs. In fact, at most universities, there is only one undergraduate course described as management accounting, and this course doesn’t teach management accounting, but rather only addresses traditional cost accounting. University professors steer their “best and the brightest” students into careers in the “accounting firms”, because of the ingrained mindset toward public accountancy. So every young person who aspires to a career in accountancy believes the only path is that of the CPA. No one would want a career in traditional management accounting or should I say, cost accounting, because they aren’t educated about all of their options. Students in the U.S. equate the CPA and auditing with accounting, just like the people I’ve met on airplanes, because they don’t know there’s much more to the field.

In universities here, there is systematic institutional bias in the profession. This leads roughly 80% of the relatively small proportion of business oriented young people who aspire to careers in US “accountancy” to take the CPA, join an accounting firm and then to leave after 2 to 3 years to go into industry where they will spend the remainder of their career. They may in a sense be “doing their time”, but they can be very unprepared to step into the role in industry where they have their first few years of work experience as assurance providers/auditors. In other words, the subjects they studied in college and practiced only to some degree during their 2 years at the accounting firm represent only a tiny fraction of the competencies they actually need to apply in their corporate activities. Recently, Relmond Van Daniker, Executive Director of the Association of Government Accountants said to me there are 800,000 “government accountants” and virtually zero education in the university system for them. This is true for management accounting in commercial enterprises, except, of course that the numbers are much greater than 800,000.

So, what has been created is a tremendous skills gap. When you look at the nature of the work performed by “accountants” as university undergraduate degrees define them, in business, it is mostly not that for which they are educated and certified. Management accounting is a whole career with many layers of different topics, a rich and vibrant body of knowledge. The CMA is the directly appropriate certification. CMA certification is a comprehensive credentialing program that assesses competency in the management accounting and financial management body of knowledge, which represents a broad range of controllership knowledge and skills. Subject matter of the four-part exam includes economics, corporate finance, cost management, internal controls, performance measurement, financial reporting, decision analysis, organization management and strategic planning, with a strong emphasis on ethics. IMA’s recent psychometrically certified Job Analysis confirms that the exam content is consistent with the on-the-job functions performed by accountants who work inside organizations.

Please do not misunderstand my comments. IMA, myself and our senior leaders are deeply respectful of the need for objective, competent assessment of financial reporting in the context of disciplined laws and regulations. But, we must remind ourselves that the most important purpose of accountancy is to facilitate the performance of business and economic development without which investors and the capital markets, standard setters and regulators become pretty redundant. Facilitating business performance involves a different set of skills than audit, tax and financial reporting. We are highly respectful of the CPA and of all the institutions that surround it, and of the need to obey the law, pay our taxes and satisfy the needs of honest and correct reporting to investors.

But that is not my issue. My issue is that we have made the assumption that the existence of healthy, vibrant “professional accountancy” community in corporations in the US exists, where different roles and responsibilities are represented by varied and different education and certifications. However, recent history would suggest otherwise. Many “finance function” accounting jobs in US (note, the bigger definition) are filled by people who do not have appropriate requisite education and certification. Mostly, they are not professional accountants but rather they have an MBA or less, whose real concerns are more about how to make money without having the commitment to a set of professional standards that is an inherent part of being a CPA or a CMA.

So, what can FAF and FASB do to contribute to redress the imbalance in the accounting profession in the United States?

- 1) The first thing then is ensure that the people and their numbers on your Boards and staff are overtly representative of the total community of finance function workers.
- 2) The second thing is to ensure that no such bias could be perceived to exist within your own ranks.

With respect to these suggestions, and perhaps it is more that I and IMA volunteers and members just don't understand FAF and FASB, but, consider:

- 1) the proportion of FAF trustees who have a CPA or past affiliations with AICPA or one of the big accounting firms;
- 2) the proportion of Fellows in FASB who came from one of the big accounting firms, and might be interested in returning
- 3) FASB partnering with AICPA with respect to private company reporting
- 4) It has been our observation that the FASB does not always do a good job in listening to feedback received from various constituencies, including those in the preparer community. We believe the FASB must be independent and demonstrably so. There is a need for that independence to come with accountability in instances where failure to listen to valid feedback results in standards that are not operational. We only need to look back to the experiences of FAS 133 and FIN 46 to see examples of standards that don't work because the FASB did not listen to feedback from preparers. Yet who pays the consequence - more times than not it is preparers. Shouldn't the FASB be held accountable when this happens?"

With respect , then to the imbalance in the education system and our institutions, I'm not saying those with public accounting backgrounds and interests don't add value when employed in business and industry, because that would be incorrect. It's simply that the representation is off balance. Our concern is that the influence of public accounting on society in the U.S. is inconsistent with the actual demographics of the community of finance function workers and the needs of our corporations and government organizations. Indeed, we perceive that there is systematic institutional bias, something that penetrates every aspect of society. We need to make sure we have certified accounting professionals with proper education relative to their varied roles and responsibilities. We also need to ensure that institutions in society have an appropriate representative mix. Finally, the benefits to society must justify cost and we should ensure that the sponsoring parties are not the most significant beneficiaries.

We have said for a number of years that we need, urgently to "rebalance the profession". Allow me to conclude with a rather different thought: The Economist recently forecast that by 2020 the

Chinese economy will be larger than the U.S. economy. They did not say this, but, imagine when the Chinese people achieve simply 50% of the level of productivity of the U.S. people, at that time their economy will be twice the size of the U.S. economy and they already wield considerable influence over the value of the U.S. dollar.

It has been said that every great civilization began as a theocracy but ended as a bureaucracy.

I realize that these are sensitive issues, and I do not wish to alienate you. But, we do need to be open, be honest and candidly discuss these issues to find a solution to help the U.S. economy and our society. Ladies and Gentlemen, we have a problem in our profession. It is in everyone's best interest to take a hard, objective look at the system and work together to rebalance the profession.