Changing Landscape
Emerging markets, developing economies lead growth
Advanced economies slowly recover

AICPA Business & Industry Economic Outlook Survey – Q2’10

Very Optimistic
Optimistic
Neutral
Pessimistic
Very Pessimistic

3%
17%
45%
99%
6%
Conference Board: 2010 CEO Top 10 Challenges

1. Excellence in execution
2. Consistent execution of strategy by top management
3. Sustained and steady top-line growth
4. Customer loyalty/retention
5. Speed, flexibility, adaptability to change
6. Corporate reputation for quality products/services
7. Stimulating innovation/creativity/enabling entrepreneurship
8. Profit growth
9. Improving productivity
10. Government regulation—first time ever in top 10

Regulatory Landscape

Financial Regulatory Reform

- House version passed bill Dec. 11
- Senate version passed bill May 20
- Conference committee convening
- Goal to have reconciled bill passed by July 4
- Neither bill includes provisions on:
  - Aiding & Abetting
  - FASB independence challenges
Financial Regulatory Reform

**Senate**
- **Executive Pay**
  - Shareholders can cast n/b votes. Fed set standards on excessive comp.
- **Oversight**
  - 9 member Financial Services Oversight Council
- **Volcker Rule**
  - Prohibit bank holding companies w/commercial bank ops from spec trading w/ own accounts

**House**
- **Executive Pay**
  - Regulators have say on comp. practices, not pay itself
- **Oversight**
  - 11 member Financial Services Oversight Council
- **Volcker Rule**
  - Prohibit activity if it could threaten stability of financial system

---

“Red Flags” Rule

- **Fair and Accurate Credit Transaction Act**
  - Requires written plan for identity verification for anyone who is a “creditor”
- **Implementation**
  - Delayed to December 31, 2010
  - 90-day post decision “grace period” for AICPA members in public practice
- **Advocacy**
  - AICPA and state societies continue to seek exemption for CPAs
PCAOB Constitutionality

- Dec. 7 – Supreme Court heard oral arguments on the case Free Enterprise Fund v. PCAOB
- Center for Audit Quality filed amicus brief
- Ruling to come any day
- 3 Options
  - Uphold the PCAOB’s constitutionality
  - Strike down the entire Sarbanes-Oxley law
  - Hybrid - rules the PCAOB unconstitutional but gives Congress and the SEC time and latitude to correct appointment structure
- If Court rules hybrid decision, AICPA will work with Congress

Temporary Pension Funding Relief

- House passed tax extenders bill – without pension funding relief
- Senate passed tax extenders bill – with pension funding relief
- Final bill needs $22 billion in pay-fors for consideration
- Congress wants to move quickly because of extension of unemployment benefits
- Pension provisions offset other tax extenders’ costs

Other Issues

- Financial planner regulation
  - House and Senate bills call for GAO study
  - If new federal regulator, CPAs could be exposed to redundant regulation
- Comptroller General
  - H.R. 4410, introduced by Peterson/Conaway, has 11 additional cosponsors
- Financial Crisis Inquiry Commission
  - Continues investigative hearings
  - Fair value
CPA Mobility Legislation - 2010

- CPA Mobility Enacted - 46
- CPA Mobility Enacted Only for Other Mobility States – GA, PA, MA
- In Process
- Awaiting Governor Signature - 1
- CPA Mobility Legislation Pending - 2

---

Tax Issues

---

Tax Overview

- Disclosure of uncertain tax positions
- Health care
- Estate tax
- Extenders bill
- Mandatory E filing
- Tax Strategy Patents
- Regulation of preparers
- Sec 7216
- Tax reform
- AMT
- LIFO
- Tax “earned interest”
Disclosure of Uncertain Tax Positions

1/26/2010 - IRS Commissioner Shulman introduced Announcement 2010-9
- Imposes new reporting requirements on business taxpayers
- Total assets in excess of $10 million
- If the taxpayer has one or more "uncertain tax positions"
- Will be reported on a new Schedule UTP

AICPA submitted comment letter June 1, 2010
- Withdraw and focus attention on existing disclosure information
- Pilot that focuses on reducing burden
- Three-year sunset

Significant Concerns with Uncertain Tax Positions
- Potential to undercut the integrity of the financial statement process
- Increased burden and cost on taxpayers disproportionate to any actual benefit to the IRS
- New tension among/between taxpayers, tax advisors; alter the current self-assessment system
- Produces complexity and results in distortions
- Disproportionate impact on small businesses
- Taxpayer reporting at a higher level than the level mandated by Congress

Health Care & Taxes

- 7 procedural
- 6 medical/deductions
- 3 penalties/interest
- 5 employee-related
- 3 insurance-related
- 2 tax income in both bills
- 1 strictly tax
Health Care Reform Resources for CPAs

AICPA developing tools to help members:

• Offer strategic guidance to the C-suite
• Make informed decisions for their own firms
• Advise clients and offer services in employee education

Estate Tax

Phased out completely in 2010
Moves back up to pre-2001 levels in 2011

• $1 M per person estate tax exemption
• 55 percent maximum estate tax rate

AICPA advocacy

• Permanently extend estate tax as in effect in 2009
• Consistency important
• Index exemption to inflation
• Conform exemptions for estate, gift, generation skipping and special use valuation
• Portability of exemption between spouse so, if first to die, doesn’t use full exemption; residual amount automatically carries over to surviving spouse

The American Jobs and Closing Tax Loopholes Act of 2010

1-year extension for tax provisions expired 2009 end, includes tax credit for research, experimentation, expenses

Tax “carried interest”

Alter rules corporations use to calculate foreign tax credits and foreign-source income

Modify employment tax treatment of income earned by individuals in professional service businesses ($ Corp)
Mandatory E-Filing

Worker, Homeownership, and Business Assistance Act of 2009 mandates e-filing

- Effective for returns filed after Dec. 31, 2010
- Exempts paid preparers of <10 individual federal income tax returns per year

Tax Court announced May 6, mandatory e-filing

- For most parties represented by practitioners in cases in which petition filed on or after July 1, 2010

Tax Strategy Patents

- Bans patents for tax planning strategies
- AICPA and state societies continue to work aggressively to pass legislation
- Support
  - 45 cosponsors on House bill – momentum remains strong
  - Senate champions (Baucus and Grassley) working to include in larger patent reform bill
  - Strong new coalition – consumer groups, financial planning groups, and tax groups
- Outlook – cautiously optimistic

Future Tax Issues

- 2011 top rates go up - 36% and 39.6%
- Proposals not getting traction
  - Increase capital gains rate to 20%
  - Limit itemized deduction to 28% rate
- Proposals getting traction
  - Codification of economic substance doctrine
  - Impose limits on family limited partnership valuations
  - LIFO repeal
  - AMT “patch” will happen
Two overall goals
- Enhance compliance
- Elevate ethical conduct

Four major elements
- PTIN
- Circular 230
- CPE
- Testing
- CPAs exempt from CPE and testing

AICPA Advocacy Goals

Short term
- Common sense implementation

Strategic
- Protect the CPA credential
Advocacy Efforts
- Meetings with Commissioner Shulman
- Reiterated AICPA concerns with exam, requested delay
  - PTIN combined with compliance and tracking
  - Confusion in marketplace
  - Costs to taxpayers
- Reiterated support for PTIN and Circular 230
- Constant engagement

AICPA Testimony on May 6
- Registration plan should not confuse marketplace
  - All registered tax preparers NOT equal
- AICPA supports PTIN for signers
- AICPA doesn’t support PTIN requirement for non-signing preparers in CPA firms
- PTIN fee should be moderate, not used for revenue generation
- Any new IRS examination process should be delayed

Comparing CPA and IRS Requirements

<table>
<thead>
<tr>
<th>CPA requirements</th>
<th>IRS requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>College graduate</td>
<td>No education required</td>
</tr>
<tr>
<td>College graduate education</td>
<td>18 years old</td>
</tr>
<tr>
<td>Uniform CPA Exam</td>
<td>IRS exam – level unknown</td>
</tr>
<tr>
<td>120 hours CPE over 3-year period</td>
<td>15 hours annual tax education</td>
</tr>
</tbody>
</table>
Non-Signing Preparers

- Issue in PTIN proposed regulations
- Pushed by the IRS National Taxpayer Advocate
- Supported by commercial preparers
- No public policy argument to include CPAs
- Fails to recognize public protection by current regulation

Timeline

- PTIN Rules March thru May
- Circular 230 June and July
- Other Guidance Late Summer
- Expected Implementation September 1
- Returns Filed January 1
- Changes to Program 2011

Moving Forward

- Two-tiered approach
  - Delaying the examination
    - Extensive input during comment period
    - Including policy makers in discussions
    - Get the first part right first
  - Impacting the overall implementation of preparer registration
    - Non-signing preparers
    - Pressing for a favorable outcome
International View

Globalization of Professional Associations

- Association of Certified Chartered Accountants
  - 33 countries
  - 140,000 members; 404,000 students

- Chartered Institute of Management Accountants
  - 40 countries
  - 172,000 members and students

- Institute of Internal Auditors
  - 128 chapters/institutes worldwide
  - 170,000 members

- Institute of Chartered Accountants of England & Wales
  - 9 countries
  - 134,000 members

- Other North American Associations
  - 75,000 CAs and 12,000 students in Canada & Bermuda (CICA)
  - 20,000 CPAs in Mexico (IMCP)

Steady Interest in U.S. CPA

- Primary interest from Japan, S. Korea, Canada, India

More than 100 countries require or permit the use of International Financial Reporting Standards (IFRSs), or are converging with the IASB’s standards.

**Momentum Toward Global Adoption of IFRS**

Source of information (adapted from): www.iasplus.com

**IFRS – Adoption Trends**

- Europe 2005
- Brazil 2010
- Canada 2011
- Mexico 2012
- Japan 2016

**Fortune Global 500 (July 2009)**

<table>
<thead>
<tr>
<th>Fortune G500</th>
<th>Based on announced plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which GAAP?</td>
<td>2009</td>
</tr>
<tr>
<td>IFRS and word-for-word IFRS equivalents</td>
<td>190</td>
</tr>
<tr>
<td>US GAAP</td>
<td>155</td>
</tr>
<tr>
<td>National GAAPs</td>
<td>155</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
</tr>
</tbody>
</table>
US Investors, Companies Depend on Cross-border Capital Flows

U.S. Markets are Diminishing in Relative Size

History of IFRS-U.S. Convergence Efforts

<table>
<thead>
<tr>
<th>Events</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 - 04</td>
<td>Growing interest in IFRSs following US financial scandals Norwalk agreement</td>
</tr>
<tr>
<td>2005 - 07</td>
<td>Growing IFRS use, concerns about US position in global markets, desire to cement IFRS MoU and SEC reconciliation requirement removal</td>
</tr>
<tr>
<td>2008 - 09</td>
<td>Consideration of US adoption and date certain Update of MoU with 2011 targets and SEC roadmap</td>
</tr>
<tr>
<td>Nov 2009</td>
<td>Renewed commitment to MOU Joint statements by IASB-FASB and Trustee bodies; plans for completing 2011 targets</td>
</tr>
</tbody>
</table>
Ethics and Independence Codification

- Single source of guidance on AICPA ethics and independence matters
- Identify areas to converge with international standards

Financial Reporting in a New Environment

XBRL: Five Labs Project

- Proxy and governance
- Federal MFM harmonisation
- Asset-backed securities
- Corporate actions
- Nonprofit reporting
- XBRL
Sustainability

- Sustainability Workshop—Sept 30-Oct 1, 2010
- Accounting for Sustainability (A4S) Case Studies

“Going green” can save you green

Blue Ribbon Panel: History

- Oct. 2009 - AICPA Council supports exploring differences in accounting standards for private companies
- Nov. 2009 – AICPA & FAF Boards approve panel
- Dec. 2009 – Official announcement with AICPA, FAF and NASBA as sponsors
- Feb. 2010 – Panel members named

Blue Ribbon Panel

- Report expected by end of 2010
- First meeting: April 12 – perspectives of U.S. private company financial statement users
- May 14 meeting – IASB, UK and CICA presented
When firms and entities share certain characteristics they are a network and must be independent of certain attest clients of other network firms.
Private Companies Practice Section

- New resources help smaller firms through economic recovery, cultivate leadership and leverage trends
- Smaller overseas firms praise PCPS resources

Firms and Economic Recovery

- Revenues: Flat in 2009; Projected 3% increase in 2010
- Hiring Plans in 2010:
  - 17% of $2-5M firms; 50% of $8-10M; 43% of $10M
- Marketing: 62% plan to increase

CPA Firms: Most Profitable Small Business <$10 million

- CPA Firms ranked number one by Forbes
- Surveyed 300,000
- Outrank:
  - Chiropractors, Dentists, Optometrists
  - Sales Financing
  - Insurance Agencies and Brokers
  - Physicians, General/Family Practitioners
  - Consumer Lending
  - Diagnostic Imaging Centers
Accounting Firms Most Trusted

- Generally speaking, how believable do you normally find statements made by someone who works for one of these organizations or groups?
- "Echo Boomers" (18-34) rated accounting firms highest – 74%

Client Accounting Services for SMBs

More than 95% of organizations will increase their use of cloud solutions in 2010 (Gartner)

CPA2Biz Cloud-Based Firm Solutions

- Firm Workflow Management
- Billing (Bill.com)
- Payroll (Paychex)
- General Ledger (Intacct)
- Client Accounting Tools
- Client Dashboards
- Online Presence for the Firm
- Firm Website, Work Order (Zoho)
Start Here, Go Places Success
- Student profiles: 15,936… and counting
- 167 CPA profiles, 113 in development

Bring Students to CPA
For accounting graduates and young professionals studying for the CPA Exam

Young CPA Network
Accounting Doctoral Scholars

- $16.8 million contributed
- 71 firms & 44 state societies

First class:
- 131 applicants
- 30 finalists
- 27 enrolled (9 tax, 18 audit)
- 39 universities participated

Second class
- 88 applicants
- 30 finalists

CPA Examination

Domestic Extension to 2024

CBT-e launch 2011

International CPA Exam Continuing Development

CPA Exam International Test Administration

- Utilizes state board licensure process and current examination structure
- Requires candidates to seek CPA licensure
- Handful of countries/regions initially
- AICPA and NASBA Boards approved completing contract and implementation plan
AICPA Membership Category Modifications

Member Ballot Authorized

Spring Council authorized member ballot to modify admission requirements for voting members

- Once held CPA certificate not revoked due to disciplinary action
- Meet education, examination, experience requirements of UAA, good moral character, never gained right to practice

Ballot to happen within 180 days from May 24, 2010

Changing Landscape

- Membership categories last reviewed in 1950s
- Students, CPA candidates and exam passers not going to licensure
- Competition from non-traditional sources
  - International designations
  - For-profit and not-for-profit
- Changes in the profession present opportunities
  - Domestic and international
  - Significant shifts in AICPA demographics
Member Ballot Goals

- Address Demographic Shifts
- Offer Diverse Entry Points
- CPA Core & UAA Consistency
- Provide Business & Industry Parity
- Meet Expectations of Younger Generations

Financial Literacy

New 360 Degrees of Financial Literacy Website Launched

- RSS feeds for 10 life stages and 13 financial topics
- Widget
- Money Management Blog (coming soon)
- Ratings and comments for articles
- User registration to create custom dashboard
- Connection to state CPA societies
State CPA Society Presence

The Need Continues…

2010 Harris Interactive Survey

- More than half of Americans have NOT been able to save any of their income in the past year.
- Half of parents asking college-aged children to take loans and reduce education costs.
- Americans' greatest concern: uninsured medical costs, employment and retirement.

Announcing a New Partnership…

- Partnership with the Society for Human Resource Management (SHRM)
  - World's largest association devoted to human resource management
  - Global membership of more than 250,000 in 120 countries
  - 575 affiliated chapters within the United States and subsidiary offices in China and India
  - Partners with the Great Place to Work® Institute Inc. for the 50 Best Small & Medium Companies To Work for in America
To Launch…

**Workplace Financial Education Award**
- Idea initiated by the Workplace Education Subcommittee of the President’s Advisory Council for Financial Literacy
- Award to honor employers who have implemented successful workplace financial education program
Professional Issues and Initiatives

- Advocacy
  - Federal/State Legislation & Regulation
  - Regulatory Reducing
  - Tax
  - Uniformity & Mobility
  - Public Policy Issues

- People
  - CPA Exam
  - Young CPAs
  - Student Recruitment
  - Diversity/Inclusiveness
  - Pro-Career & Support
  - 126th Hour

- International
  - IFRS
  - IFAC
  - Ethics

- Financial Literacy

Prof. Excellence & Public Interest

- Tax Preparer Registration
- Enhanced Business Reporting
- XBRL
- Private Company Financial Reporting
- Small Business
- Audit Quality
- Clarity Project
- Peer Review & Ethics
- Private Company Practice Section
-スピードy Community

- Business, Industry & Government

- CPA Reputation
- Competition & Risk
- Operational Excellence