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Adapt, Evolve for Relevance: Driving Change to Preserve Our Future

Good morning. I'm delighted to welcome you to one of the AICPA's premier events – the Conference on Current SEC and PCAOB Developments. What more could we ask for? We have top policymakers, regulators and industry experts to discuss the important issues we all care about. And in this era of rapid change and complexity, it's more important than ever to hear firsthand about the significant developments affecting public companies and their auditors.

I'm eager to share with you some of the steps the CPA profession is taking to stay ahead of change, protect the investing public, and drive our relevance in the marketplace of the future. We're a strong profession, and the core of what we do is essential in the world's largest economy. The fact that we've been around for nearly 130 years proves that very point. And we'll continue our trajectory to evolve, adapt and adjust, in line with what our organizations and clients need. The public expects this of us, and we must answer those demands – even before they arise.

New trends, transactions and market forces bring new opportunities; and I want the profession to make the most of them. Today I'll highlight a few emerging service areas, and our strategy for making sure the best and brightest choose our profession. And of course, I'll comment on our important efforts to protect and enhance the quality of the services we provide.

But before I talk specifics, I'd like to thank the many people who helped put this all-star program together, including this year's Conference Chair, Bridgette Hodges from Grant Thornton.

I also want to recognize and thank some of the high-level industry leaders who will be speaking. They include SEC Chair Mary Jo White and Chief Accountant Jim Schnurr, PCAOB Chair Jim Doty, FASB Chair Russ Golden, IASB Chair Hans Hoogervorst, and Center for Audit Quality Executive Director Cindy Fornelli. The CAQ is affiliated with the AICPA and focuses on public company auditing. Cindy will be talking to you shortly about some key CAQ initiatives, including priorities we share.

The quality of these conference speakers and the rest of the lineup makes the next few days invaluable. Their participation and support is greatly appreciated. Let's give them all a round of applause.

Standing here today, thinking about the wealth of information and insights that will be shared, I realize I've become AICPA chairman during a critical and exciting time. Rapid changes in global business combined with technologies moving at the speed of light have fueled the incredible complexity we all are experiencing. Businesses and their CPAs must have the ability to respond just as rapidly, with the added responsibility of providing expertise, transparency and integrity. That's a tall order, but I know we're up to the task.

As we're met with so many different and challenging issues simultaneously, we're fortunate to have a single common denominator that drives all of our efforts – a commitment to quality at the heart of everything we do.

Many of you are familiar with the AICPA's ongoing Enhancing Audit Quality initiative. While the initiative is designed to address today's most important audit quality issues in the private company space, in many ways it parallels audit quality efforts for public companies. For example, we're all looking to attract the best and brightest into careers in auditing and assurance. We're making sure professional standards and guidance drive quality behavior. We're providing learning resources focused on competence, not just knowledge. And we're creating a more robust monitoring and enforcement system that enables prompt remediation. The quality initiative is one way to tackle our fast-paced, increasingly complex business landscape. Another antidote to increasing complexity is specialization. CPA firms are continuing to diversify their service offerings, and accordingly are broadening the types of professionals they hire to perform those services.

During the past eight years, the percentage of new hires in accounting firms who were not accounting graduates has doubled – from 13% to 26%. The once simple relationship between CPAs and clients or employers has been transformed into a complex and fluid business ecosystem. Never has the profession's body of knowledge been greater, and the need for collaboration with professionals in other disciplines more critical.

Conversations that used to include just the CPA and finance team now also include HR and IT professionals, sustainability advisers, engineers, economists, and experts on local culture. CPAs should lead this collaboration, organizing multidisciplinary project teams to create effective units and provide clear direction for clients and employers.

A recent example of CPAs collaborating with a broader range of professionals is our development of two fair value measurement credentials – one in complex financial instruments, and the other in business and intangibles valuation. The AICPA, along with several domestic and international partners, is working to address concerns about the quality, consistency and transparency of the valuation process among the varied professionals in this service area.

The responsibilities of new accountants have broadened, but at the same time have become more intensely focused. It's important that we equip these new accountants to handle more complex and advanced tasks earlier in their careers. The next version of the Uniform CPA Examination, launching in 2017, will enhance testing of higher-order skills aligned with the modern day-to-day work of newly licensed CPAs. Changes to the exam will increase assessment of critical thinking, problem-solving, analytical ability and professional skepticism. Having knowledge is just part of the equation – knowing how to apply it is what gets the job done. That's the real test for competence.

Technology is key to bringing the next version of the CPA Exam to fruition. But the rapidly evolving impact and utilization of technology extends far beyond the exam. Without a doubt, technology changes the game. It always has.

XBRL, the international standard for digital reporting of financial and business information, long championed by the AICPA, is instrumental in improving the accessibility of tagged financial statement data to facilitate analysis and decision making. Similarly, the AICPA's Audit Data Standards facilitate the extraction of information used for internal and external auditing. Current and ongoing research will result in guidance to support greater use of analytics in the financial

statement audit. External auditors will be better able to recognize risks of misstatement, and controllers will be enabled to instantly recognize patterns in their subsidiaries around the world.

Investors are also looking for more clear and comprehensive ways of evaluating organizations. Corporate reporting must evolve to meet the information needs of users by embracing the concepts of Integrated Reporting, while at the same time leveraging technology to make that information more accessible and optimized for automation and analytics.

As business moves toward enhanced electronic information, the imperative for cybersecurity solutions is heightened. Information security is not a new concept, and the AICPA has been addressing the challenges for many years. Back in the 1990s we laid the groundwork for control-based assurance services through the development of Trust Services Principles and Criteria. And, we continue to maintain and evolve these criteria, which serve as the foundation for Service Organization Control – or SOC – Reporting, and for other services assessing the privacy, security, availability, processing integrity and confidentiality of company systems.

Now we're laser-focused on cybersecurity risk and how the CPA profession can provide value-added services to meet market needs. Given our history and professional foundation related to assurance on information security, services that help mitigate cyber-risk are a natural extension of what CPAs have already been doing for decades. And resources to support CPA practice in this area, including cybersecurity attestation guidance, will be issued next year. We also have several resources to help the accounting community provide cyber-related expertise in business and information technology for employers and clients.

You can see how our responsibilities as preparers, and the public accounting service mix, have changed through time. And that will continue. Our skills and services as we know them today must keep evolving. We can't assume what we do today will be needed and exist forever. The question is, do we prepare for change today, or wait to react when change is forced upon us? As many have said, "hope" is not a strategy. But planning is.

The AICPA constantly works to identify trends and developments that will affect the profession. The changes we've been making throughout our history keep us strong. That strength gives us the power to continue to adapt and adjust – to stay relevant in an ever-evolving business world.

I want to mention another opportunity that stands before us. Four years ago, we formed a joint venture with the Chartered Institute of Management Accountants. With CIMA, in January 2012 we launched the Chartered Global Management Accountant designation to elevate and professionalize management accounting, and to demonstrate strategic competency among finance professionals. Today, the 150,000 CGMA designation holders make up the world's largest body of management accountants.

Here's why CGMA gained traction so quickly. Financial statement preparers with insights about their organization's processes, human capital, risks, opportunities and value contribute to better financial and business reporting – both internally and externally. The release of the Global Management Accounting Principles to support organizations in benchmarking and improving their management accounting systems, as well as a competency framework for management accountants and a case-study exam for CGMA candidates, further professionalized management accounting.

The success of this program has given us a basis to evolve our joint venture with CIMA by creating a new association that would integrate the strategy, operations and management of

both organizations, generating even more capabilities. The deeper partnership will advance quality and advocacy, achieve economies of scale, and enhance support of current and next-generation accounting professionals – in both management and public accounting. It's a very exciting proposal that members could be asked to vote on this spring. You'll be hearing more about this in the coming months.

Earlier I mentioned that we'll need the right people to perform emerging services in a complex, ever-changing business environment. We want to be a magnet for the best and brightest talent. But how do we do that? Let's start by recognizing that potential new CPAs are different from any previous generation. We need to adapt how we relate to them, and modernize our methods for developing them as holistic professionals.

Millennials now make up a quarter of the U.S. population. They outnumber Baby Boomers and are more diverse than any previous generation. More than 44 percent are part of a minority or ethnic group. Millennials do things differently, and they have a different view of the workplace.

To stand out not only from other firms and companies, but from other professions, we all – regulators too – need to create a culture in which Millennials can thrive. Firms and employers can do that by creating a workplace that invests in the entire person and recognizes that their people care about more than work. Millennials want to be inspired. They want to know why a company does what it does, and they demand a platform that supports work-life integration.

The workplace also is the incubator for seeking the CPA license. Recent independent research commissioned by the AICPA revealed that a pro-CPA environment is the most critical factor that determines whether a new professional decides to sit for the CPA Exam. A pro-CPA workplace environment is the number one factor in people taking the exam; and many of us can have a positive impact on that.

But to attract the best and brightest from future generations we have to start engagement earlier. We have to continually ask ourselves, "What can we do in the academic space so that students are introduced to the excitement and value of the accounting profession?"

Research shows that high school is the first influential touch point for future CPAs. We've introduced new programs for both high school educators and students, including our very popular "Bank On It" game.

College campuses are the second influential touch point. Today, more than a quarter of a million students are enrolled in bachelor's or master's accounting programs. That's the first time we've passed the 250,000 threshold – a major milestone. We've also seen a 31% increase in students receiving master's degrees in accounting, another record number.

This is all good news, but we're not resting on these achievements. Besides the numerous programs we have long offered to pull potential CPAs through licensure, we have a new three-pronged approach to boost the CPA pipeline.

First, we'll enhance our presence on college campuses. We're working with state CPA societies across the country to increase the visibility of the CPA and encourage careers in accounting.

Second, we're building a community college initiative. About 40 percent of those who pass the CPA Exam have some community college experience, and this effort extends our reach.

Finally, we're continuing to build relationships with the academic community on the importance of the CPA pathway. We're enhancing our relationships with the trusted educators of the CPAs of the future.

Taking decisive action to innovate and adapt has preserved our profession's relevance for nearly 130 years. To shape the future, we have to be willing to take steps every day that will have an impact tomorrow and beyond. Continuing to evolve to meet the needs of businesses and clients is the key to staying strong and maintaining the relevance of our great profession.

It's like planting a tree. When you first plant the tree, the landscape doesn't change much. But look ahead a few years ... that tree will provide fruit and shade for generations to come. For us to own our journey and control our destiny, we need to plant trees today. And that starts right here, right now.

Thank you very much. Enjoy the conference.