

INSTITUTE OF MANAGEMENT ACCOUNTANTS

POSITION STATEMENT PROFESSIONAL JUDGMENT

February 4, 2008

The following is a position statement from Paul A. Sharman, ACMA, president and CEO, Institute of Management Accountants (“IMA[®]”), regarding the role that professional judgment plays in interpretation of and compliance with accounting standards, rules, and regulations in the interests of society as it strives to create jobs and wealth.

With a worldwide network of more than 60,000 professionals and representation in more than 100 countries, IMA is the world’s leading organization dedicated to enabling accounting and finance professionals to drive business performance inside organizations through networking, research, education, certification, and professional development.

During 2007, the Securities and Exchange Commission (“SEC”) formed and launched its Advisory Committee on Improvements to Financial Reporting (CIFiR) due to the increasing concerns in recent years expressed by constituents regarding complexity issues in financial reporting. This complexity may partially be responsible for the high level of material financial restatements, which impacts a firm’s cost of capital, as well as investor protections. CIFiR is supported by various Subcommittees – Substantive Complexity, Standard Setting, Audit Process and Compliance, and Delivering Financial Information. On December 6, 2007, IMA senior management participated in a panel that was conducted by the CIFiR’s Standard Setting Subcommittee. The Subcommittee invited IMA and other organizations to express their views on hypotheses that the Subcommittee proposed as potential solutions to complexity in financial reporting.

The following is one of the hypotheses and Paul Sharman’s response:

Hypothesis

Accounting standards should be written in a manner that reflects the premise that there is trust and confidence in efficient markets through the respect of professional judgment, rather than by attempting to prevent abuse.

IMA Position on Professional Judgment

The notion of professional judgment of issuer staff is critical to the implementation of principle-based standards. Presently, there is a huge lack of adequately educated and certified finance function professionals who work inside corporations. This needs to be addressed by regulator and institutional encouragement of the deployment of professional certification for those workers, but premised on something other than a compliance and audit foundation.

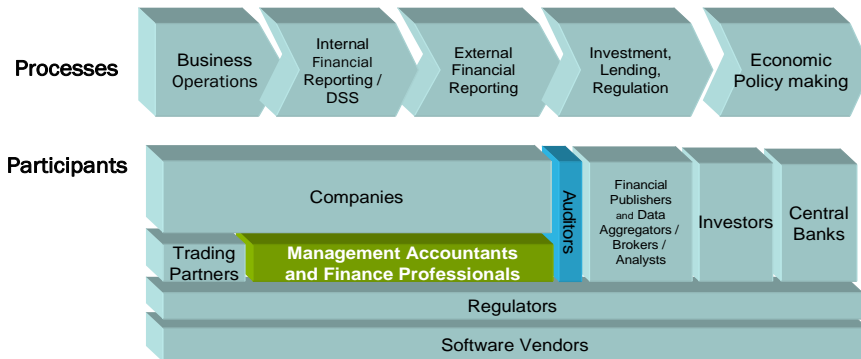
We first start with a literal understanding of what is meant by the words “professional” and “judgment,” along with components of the financial/information supply chain (see Exhibit A) in order to gain an appreciation for IMA’s overall position on professional judgment:

- a) Professional: Characterized by or confirming to the technical or ethical standards of a profession.
- b) Judgment: The process of forming an opinion or evaluation by discerning and comparing.
- c) Business reporting supply chain: The process of acquiring data from source systems, and processing, reporting, analyzing, and validating the operational and financial data.

In order to render appropriate professional judgment, an accounting professional has to have a sound foundation of technical skills sustained and enhanced with professional development and an appropriate professional certification. However, in practice, there is a heavy and disproportional reliance on external auditors to apply professional judgment to registrant’s financial reports. While external auditors play a valuable role in the financial/information supply chain, they are ultimately responsible for checking the work (at the *end* of the supply chain) of the internal finance staff that is ultimately responsible for building quality in. It is these internal finance function staff (e.g., accounting and financial managers, controllers, CFOs internal auditors, etc.), comprising more than 90% of the roughly 5 million finance function and accounting personnel in U.S. society, who need to have the sound technical foundation and ongoing professional development to render appropriate professional judgment.

The challenge faced by these professionals coming in to the workforce is that the accounting curriculum at colleges and universities are training these professionals to function in an external audit-centric environment of “checklists” instead of being trained to apply judgment as management accounting professionals through quality, risk, and performance management approaches.

The Financial / Information Supply Chain – Exhibit A



Our primary concern with the application of professional judgment is one of balance, not bias. In other words, the accounting education curricula, state licensing boards, and regulatory standards and guidance focus almost exclusively on the role of the external auditor. For registrants to issue “clean” financial statements to protect and preserve the wealth of investors, the finance function personnel who might be described as management accountants that work inside organizations to build quality finance and accounting systems and information to create sustainable value, must have the proper education, certification career specific experience, and professional development.

Management accountants perform a range of activities in enabling an organization to formulate and implement its strategy, drive business performance, and help to create stakeholder value. These activities start with demonstrated expertise in technical accounting, including transaction processing and financial reporting. In the financial/information supply chain, the management accountant plays a key role in designing, implementing, managing, and reporting financial information to all organization stakeholders both internal and external (this information includes financial statements, notes, management disclosure, and analysis.) In these roles, the management accountant is responsible for “building quality in” the financial reporting process so that the audit checklists at the tail end of the process result in zero defects or meet a predefined quality control benchmark. Designing, implementing, and managing financial reporting processes using management accounting disciplines (such as, continuous

process improvement, process management, risk management, performance measurement, and internal controls) are the best way to ensure high quality outputs. The management accountant can use this technical foundation as the basis for professional judgment, but as noted earlier, must have the skills, professional development, and appropriate certification to render these judgments.

In addition to the technical accounting foundation, management accountants leverage these skills to also drive business performance in more “forward-looking” activities, generally referred to as decision support and planning activities. This includes business cases, M&A support, new product introduction support, budgeting, strategic planning, forecasting, enterprise risk management, process quality techniques, and other value-adding disciplines -- knowledge of which is invaluable in forming early professional judgments about planning for compliance

In summary, IMA supports the initiatives of the CIFIIR and its Subcommittees as it relates to complexity in financial reporting. However, we are very concerned that an imbalance exists in accounting education, in the accounting community, and in the regulatory bodies which puts inordinately less attention on those in the best position to apply professional judgment to complex financial reporting issues -- the 90% or more of finance function staff who ultimately are accountable for ensuring the existence of high quality processes, procedures, systems, risk/performance management, and, of course, reporting to investors and regulatory agencies.

Professional judgment must be expected of people who are responsible for corporate performance and the reporting thereof in the financial information supply chain. In order to do so, we must recognize that it is the millions of finance function workers who actually do the work inside U.S. corporations that are responsible. In order to apply professional judgment, those people must be properly educated and certified and have a commitment to ongoing, pertinent, professional development, and ethical behavior. In other words they must actually be professionals.