I had the privilege to have a candid talk with John Bogle, Founder of The Vanguard Group, at the 17th Annual Conference on Financial Reporting, where he was the lunch keynote speaker and recipient of the Berkeley Award for Distinguished Contributions to Financial Reporting.

Mr. Bogle, a pioneer in the mutual fund industry, introduced the first Standard & Poor's 500 index fund ever -- the Vanguard 500 Index -- in 1976. He believes investors should join the market rather than trying to beat it. He demonstrated this by offering low cost, low maintenance index funds that allowed several millions of investors to participate in the greatest bull market ever.

During my interview with him, we explored the possible causes and remedies for the deterioration of American values and ethics in business and possible remedies. I asked him two key questions:

continued on page 2
**The Intrinsic Market Value of Ethics in Business**

Darwin: “What are the contributing factors to the erosion of the conduct and values of our business leaders, our accountants, our investment bankers, and our money managers over the past two decades?”

Bogle: “One major contributor to the erosion of that conduct and those values has been the change in the nature of our financial markets that reflects radically different views of what investing is all about, and the role of our nation’s accounting system in defining them. One is the real market of intrinsic business value. The other is the expectations market of momentary stock prices. This is why I have chosen “A Tale of Two Markets” as the title of my remarks today.

In the Real Market of business, real companies spend real money and hire real people and invest in real capital equipment, to make real products and provide real services. If they compete with real skill, they earn real profits, out of which they pay real dividends. But to do so demands real strategy, real determination, and real capital expenditures, to say nothing of requiring real innovation and real foresight.

Loosely linked to this Real Market is the Expectations Market. Here, market prices are set, not by the realities of business that I have just described, but by the expectations of investors. Crucially, these expectations are set by numbers -- numbers that are to an important extent the product of what our managements want them to be, too easily manipulated and defined in multiple ways. When we have two vastly different markets, it is almost inevitable that major conflicts arise.”

Darwin: “What are some of the possible solutions to our ailing problems?”

Bogle: “In the long run, the numbers that are reported as earnings don’t change the realities of investing. For the good of our society, we need to return to a system in which the real market of owning businesses returns to play the starring role in investment strategy, and the casino-like expectations market is consigned to a supporting role, even as we strive to provide financial reporting that makes those expectations as hard and firm and realistic as we possibly can. Each one of us must focus our own personal human resources of integrity and character on resolving the stubborn and difficult issues that have arisen in this flawed era of capitalism.”

I strongly concur with Mr. Bogle’s conclusion that the answer to our ethical problems boils down to the character and integrity of individuals who run our businesses. To address this problem, we highly promote ethics and values in our curriculum at Haas, as they provide the foundation on which a stable society exists. Without that foundation, not only companies, but even civilizations collapse. On a personal level, everyone must answer the following question: What is my highest aspiration? The answer might be wealth, fame, knowledge, popularity, or integrity. But if integrity is secondary to any of the alternatives, it will be sacrificed in situations in which a choice must be made. Such situations will inevitably occur in every person’s life.

Desert storm hero General H. Norman Schwarzkopf, talking about leadership said: “Leadership is a potent combination of strategy and character. But if you must be without one, be without the strategy.”

The purpose of ethics in business is to direct business men and women to abide by a code of conduct that facilitates public and investor confidence in their products and services. Berkeley is so committed to this cause that the Haas School has established the Center for Responsible Business dedicated to creating a more sustainable, ethical, and socially responsible society.

All major accounting professional organizations have an ethics code. The American Institute of Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), and the Institute of Internal Auditors (IIA) all maintain a code of ethics. Professional accounting organizations recognize the profession’s responsibility to provide ethical guidelines to its members. The AICPA’s first principle of professional conduct states: “In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.”

Why is this important?

Ethics has been the foundation of our global success and is the heart of America’s economic freedom. America’s standards have tarnished from time to time, but we have always demonstrated in history to quickly respond to the crisis, pay the price, correct the problem, learn from the mistakes, and move forward.
Why do people from all over the world flock to our shores to find opportunities and excel? I was told:

• 1 of every 4 scientists and engineers in the United States is foreign born.
• 50% of doctoral computer science and math degrees and 60% of doctoral engineering degrees awarded in the United States go to foreign nationals.
• Over 40% of master's degrees in engineering, computer science, and math awarded in the United States go to foreign nationals.
• Nearly 50% of all Nobel Prizes awarded in the United States between 1901 and 1991 were won by foreign-born individuals or their children.

It is an established fact that America attracts the best and brightest in the world to promote technological preeminence, strengthen the economy, conduct cutting-edge research, launch innovative companies, and create millions of high-paying jobs.

Why do people flock to our shores?

• We have been a breeding ground for generating inventions and training inventors.
• We have the most entrepreneurial business climate, one that promotes market-based competition, rewards risk, permits failure and with relatively easy access to capital.
• We have the infrastructure to leverage competitive discoveries and speed time-to-market.
• We are the home of great innovators such as Thomas Edison, Bill Gates, and Albert Einstein, to name a few.
• We have intellectual property protection laws for innovators to create jobs and technologies where their ideas are best protected and most profitable.
• We have a transparent government when compared to many, with political stability and a broad respect for the rule of law.
• We have a high quality of life, relative security, and abundance.

All of the above are true but they are purely a byproduct of our strong ethical foundation. It is the character and profile of our nation that draws people from all over the world.

The great English writer G.K. Chesterton observed that America was the only nation in the world founded on a creed. He was referring to the second paragraph of America's founding document: “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights that among these are life, liberty and the pursuit of happiness.”

America's founders established a nation based on widely held ethical values. In George Washington's farewell address to public life on September 17, 1796, he said that the survival of freedom on American soil would have nothing to do with him, and everything to do with the character of its people and the government they would elect.

My father and more than 70 of our family members arrived here from India with a few pennies in their pockets and were given opportunities to prosper as scientists, physicians, academicians, and business people -- opportunities that were not made available to us in our own nation. For us, America is not an experiment; it is a reality.

In recent times there seem to be a perceived inefficiency in the US regulatory system to protect investors by maintaining fair, orderly and efficient markets in facilitating capital formation. Up until the year 2000, nine out of every 10 dollars were raised by foreign companies in the US. By 2005, nine of every 10 dollars were raised outside of the US. There is a prospect of losing foreign companies electing not to register in the US Stock Markets (recent examples include: India bulls –WSJ article). Possible reasons for this trend could be:

• Our costly and cumbersome deregistration process in the US
• US litigation system
• Managements' distraction from frivolous law suits – second guessing regulators and litigators
• Cost of SOX and our complex Rule Based Financial Reporting system that has evolved over time to keep people honest and prevent fraud.

We should all ask ourselves how we can preserve the founding principles, values and ethics on which this nation is built to counter some of the disturbing trends we see in the US Capital Markets. Unless we promote the foundation on which we stand and restore the damaged portions in a responsible, ethical, and timely manner, great will be our fall.
Developments and Enhancements of Our Programs
By Dayna Haugh, Assistant Director, Center for Financial Reporting and Management

CFRM Welcomes Two New Sponsors
We are happy to have Ernst & Young and Protiviti as our newest Sponsors of the Center. Ed Kennedy, Audit Senior Manager and Catherine Banks, Area Director for the Pacific Northwest and Lead Campus Recruiter for Ernst & Young, expressed that they are very enthusiastic about CFRM’s objectives and vision for the future.

Protiviti is a leading international provider of independent internal audit and business and technology risk consulting services. Rachel Bell, Director, Ed Scheuer, Managing Director, and Elaine Poucher, Pacific Northwest Recruiting Manager have already enthusiastically supported several CFRM activities.

New Executive Accounting Program Offered
A survey was given to the attendees of the financial reporting conference regarding their interest in attending Executive Accounting Program courses. Due to the great response, we are happy to announce that two new programs will be offered March 19-23, 2007. Classroom space is limited to 60 students per course. Online registration is available now at: http://groups.haas.berkeley.edu/accounting/cfrm/conference/Exec06.

The Executive Accounting Programs are designed to enhance leadership skills and equip financial executives with current knowledge and best practices as well as foster personal development in a changing business world. The programs employ the best practitioners and academicians to engage the world’s most promising manager in a transformational experience to manage more effectively and innovatively.

Executive Accounting Program I
Name SOX Compliance Strategies for Financial Executives
Date 3 Day Program offered March 19-21
Time 7:00 am - 8:00 am Continental Breakfast
8:00 am - 5:00 pm Class Program
Topics Day 1: Planning & Organizing Strategies for Compliance
Day 2: Implementation Strategies for Compliance
Day 3: Cost Reduction Strategies and Other Solutions
Fee* $3,900

Executive Accounting Program II
Name Reconciling IFRS with US GAAP
Date 2 Day Program offered March 22-23
Time 7:00 am - 8:00 am Continental Breakfast
8:00 am - 5:00 pm Class Program
Topics Day 1: Tools for Reconciling US GAAP with IFRS
Day 2: Case Discussions from Real World Examples for Reconciliation
Fee* $2,900
*Fees include breakfast, lunch, refreshments, parking and course materials

Diploma of Completion
A Diploma of Completion for the Executive Accounting Program will be granted in addition to CPE credits.

Program Designed for:
• CFOs / Chief Accounting Officers
• Financial and General Controllers
• Heads of Financial Reporting
• IFRS/IAS Project Leaders
• Accountants/Corporate Accounting Consultants
John C. Bogle, founder of the Vanguard Group, was honored with the Berkeley Award for Distinguished Contributions to Financial Reporting at the 17th Annual Conference on Financial Reporting, held on Friday, October 7, at the San Francisco Marriott Hotel.

Mr. Bogle delivered the conference’s lunch keynote, “A Tale of Two Markets,” which looked at earnings management and ethics in financial reporting.

A committee of accounting standard-setters, corporate financial executives, and academics selected Mr. Bogle for this award. Solomon Darwin, Executive Director of CFRM said that “Mr. Bogle is an outspoken advocate of strong business ethics and an ambassador for the high quality financial reporting to which Haas is committed.”

Mr. Bogle is founder of the Vanguard Group, Inc., one of the two largest mutual fund organizations in the world. He is also president of Vanguard’s Bogle Financial Markets Research Center. He created Vanguard in 1974 and served as chairman and chief executive officer until 1996 and senior chairman until 2000. The Vanguard 500 Index Fund, the largest fund in the group and the first index mutual fund, was founded by Bogle in 1975.

In 2004, Time magazine named Bogle one of the world’s 100 most powerful and influential people. He had previously been designated as one of the investment industry’s four “Giants of the 20th Century” by Fortune magazine in 1999. He is a recipient of the Woodrow Wilson Award from Princeton University for “distinguished achievement in the nation’s service.”


**Vanguard Founder Honored at Financial Reporting Conference**

**Award Selection Committee**

The objective of The Berkeley Award for Distinguished Contributions to Financial Reporting is to recognize an individual in financial reporting that has demonstrated courage, leadership, stewardship, or other meritorious performance in the interest of providing financial information useful to investors in making investment decisions.

**2006 Selection Committee:**

- **Dennis Beresford**
  Professor
  Former Chair
  Financial Accounting Standards Board

- **Tom Campbell**
  Dean
  Haas School of Business, UC Berkeley

- **Colleen Sayther Cunningham**
  Chief Executive Officer
  Financial Executives International

- **Arthur Fliegelman**
  Moody’s Investors Service

- **James Leisenring**
  Board Member
  International Accounting Standards Board

- **Patricia McConnell**
  Senior Managing Director
  Bear Stearns & Company, Inc.

- **George Staubus**
  Professor Emeritus
  Haas School of Business, UC Berkeley

- **Michael Sutton**
  Former Chief Accountant
  Securities and Exchange Commission

- **Patricia Doran Walters**
  Senior Vice President
  Association for Investment Management and Research
This year’s 17th Annual Conference on Financial Reporting was held on October 7, 2006 at the San Francisco Marriott Hotel. Key standard setters and regulators from FASB, IASB, SEC, PCAOB, AICPA, AcSEC, IMA and FEI, as well as industry experts discussed the latest financial reporting trends and issues.

Thomas Linsmeier, Board Member of FASB opened the conference with a speech on Fair Value. He then joined the Emerging Issues in Financial Reporting panel to discuss the IASB and FASB Technical Agenda, Convergence/Conceptual Framework, Business Combinations, and Transition of Issues for Global Corporations. Bob Walker, Immediate Past Chairman of FEI moderated and other panelists were: Mary Barth, Board Member, IASB and Joan E. Horngren Professor of Accounting, Stanford University; Mark Bielstein, Member, Emerging Issues Task Force, FASB and Partner, KPMG LLP; and Steven Hobbs, Senior Advisor of Protiviti.

Maria Nondorf, who is an Assistant Professor at the Haas School of Business, moderated the Current Issues at the SEC and PCAOB session. Panelists Carol Stacey, Chief Accountant, Division of Corporation Finance, SEC; Grace Hinchman, Senior Vice President, FEI; Bill Gradison, Immediate Past Acting Chairman and Founding Member of PCAOB; and Toby Bishop, Forensic & Dispute Services Partner, Deloitte LLP and Immediate Past President and CEO, ACFE covered topics regarding Review of Materiality Issues, Fraud (Audit Structure & Detection), FAS 123 Update on Guidance, and XBRL.

Dean Tom Campbell presented the Berkeley Award for Distinguished Contributions to Financial Reporting to John Bogle, Founder of the Vanguard Group during lunch. The audience was captivated by Mr. Bogle’s speech on “A Tale of Two Markets”.

The first afternoon panel Sarbanes-Oxley – “Journey to Compliance” was moderated by Suneel Udpa, Lecturer, Haas School of Business. Discussions covered Guidance for Management’s SOX 404 Assessment (including discussion on the SEC’s Concept Release Comments); AS No. 2 Implementation; and Cost Reductions Strategies for Compliance. The panelists were: Brian Croteau, Associate Chief Accountant, Office of the Chief Accountant, SEC; Jeffrey Johanns, Technical Consulting Partner, National Accounting Consulting Services, PWC LLP; Hans Ploos van Amstel, Chief Financial Officer, Levi Strauss & Co.; Paul Sharman, President & Chief Executive Officer, Institute of Management Accountants; and Thomas Flannery, Partner and Americas Director of Audit Committee Communications, Ernst & Young LLP.

“I found the conference extremely instructive. It gave me insight into both where financial reporting is today, and also into where it will go in the next 12-24 months”

Ed Scheuer
Managing Director
Protiviti
Bob Laux, Director, Technical Accounting and Reporting of Microsoft Corporation moderated the last panel on Complexities in Financial Reporting – “Facing the Challenges”. Panelists Leslie Murphy, Chair, Board of Directors, AICPA and Group Managing Partner, Plante & Moran; Ben Neuhausen, Chairman, AcSEC and Partner and National Director of Accounting, BDO Seidman LLP; Betsy Rafael, Principal Accounting Officer, Cisco Systems, Inc.; Jon Flaxman, Senior Vice President and Controller of Hewlett-Packard; and Mary Barth, Stanford University discussed Principles-Based vs. Rules-Based Standards; International Convergence/Causes of Complexity; Codification of Existing Accounting Literature; Institutional/Cultural/Behavior Issues; and Enhanced Business Reporting.

The day concluded with a raffle awarding four lucky winners prizes which included two nights stay at the Marriott Hotel, two free admissions to next year’s financial reporting conference, and an autographed book by Mr. Bogle.

More photo highlights of the conference are on our web page: http://groups.haas.berkeley.edu/accounting.

“I thoroughly enjoyed the Conference. The speakers and panelists were excellent and I believe that I went away from this conference with a broader understanding of the fundamental current issues involving financial reporting. It was excellent to hear the viewpoints from professionals with different perspectives, such as the standard setters, users, and preparers of financial reports.”

Alan Falcon
Professor of Accounting
Qintao Fan joined the Haas School of Business in Fall 2003 as an assistant professor of accounting after graduating from Stanford University. Her dissertation looks at “earnings management,” particularly in cases where firms prepare for IPOs. She explores whether companies are reporting inflated earnings figures, and whether such inflation renders accounting reports totally meaningless or serves a useful purpose.

Qintao has found that, surprisingly, earnings management can be an effective way for “higher quality” firms, those with potential to generate a higher stream of earnings, to separate themselves from lower quality firms in the eyes of investors.

Firms can also demonstrate their value to investors by strategically combining earnings inflation with another “signal” such as retaining a certain degree of ownership in the company. The more ownership the IPO insiders retain, the greater a sign it is to the outside world that they believe in the IPO firm’s future earnings potential. Her explorations of how IPO firms use both ownership retention and reported earnings to signal firm value have generated a rich set of empirical implications regarding market efficiency and the strategic use of earnings management. Data on IPO firms from 1987 to 1997 confirm that investors do pick up on signals such as earnings inflation and ownership retention in valuing an IPO firm. This paper is forthcoming in The Accounting Review.

Together with colleague Xiao-Jun Zhang, co-chair of the accounting department at Haas, Qintao also studies the optimal accounting system when a firm can control the accuracy of its accounting information through unobservable action. In variance with the common view, accounting conservatism, as a commitment to an apparently inefficient classification scheme given the ex post information quality, may positively induce greater effort in controlling information quality ex ante. As a result, commitment to conservatism may improve the overall information quality and enhance the ex ante welfare of accounting information users. This paper was presented at Duke-UNC Junior Faculty Fall Camp in September 2005, the HKUST Summer Symposium in June 2006 and the American Accounting Association 2006 Annual Meeting in Washington, D.C.

Qintao’s most recent research interest is in issues related to managerial incentives and compensation.
Nicole Johnson’s most recent work examines the relationship between a firm’s decision to reprice underwater employee stock options and future firm operating performance. Johnson and her coauthors, UCLA professor David Aboody and Stanford professor Ron Kasznik, looked at companies with stock prices that had dropped significantly, leaving many employees holding out-of-the-money stock options. Of 1,345 companies they examined, the group found 396 examples of publicly-traded firms that lowered the exercise price of outstanding stock options to a price at or near the then-current market price during the period 1990 to 1996.

Using hand-collected repricing information from firms’ financial statements, they measured whether the repricing had any impact on the company’s operating income over the next one to five years. Their results indicate that firms that reprice executive options performed better over the next one to five years than similar firms that did not reprice their options. Firms that repriced only non-executive options, however, did not see a long-term boost in performance.

Nicole and her coauthors chose this setting to examine the impact of stock option grants on employee behavior because a stock option repricing event is economically similar to the implementation of a new stock option plan. As long as the options are underwater and employees do not expect the stock price to rebound, the outstanding options should have no effect on employee behavior. When the options are repriced to the new, lower market price, any behavioral incentives associated with the options should be restored. Their tests are designed to pick up the effect of those restored incentives on firm operating performance.

Nicole cautions, however, that it is difficult to draw a cause and effect relationship between executive option repricing and firm performance because in many cases, executives may have been able to opportunistically influence the repricing decision, pushing for a repricing when they knew that the firm’s prospects were good. However, it is unlikely that non-executive employees would have this type of influence – thus, their findings regarding the repricing of non-executive employee options provide evidence that stock option grants to non-executive employees may not translate into long-run improved firm performance.

Professor Johnson is also working on several other projects, including an examination of investors’ perceptions of earnings ending in round numbers with Devin Shanthikumar at
Harvard Business School and a project with Haas professor Maria Nondorf exploring the effects of layoffs on future firm performance. Johnson attended several academic conferences this year and was quoted in the San Francisco Chronicle on July 1, 2006, discussing the implications of alleged stock option back-dating by KLA-Tencor and other firms.

**Cost Allocation for Capital Budgeting Decisions**

During the last year, Sunil Dutta wrote the paper “Cost Allocation for Capital Budgeting Decisions” with Tim Baldenius (Columbia) and Stefan Reichelstein (Stanford). He presented the paper in the accounting conference held at the Norwegian School of Business and Economics. The paper has been accepted for publication in The Accounting Review. Sunil also finished a major revision of a paper entitled “Managerial Expertise, Private Information, and Pay-Performance Sensitivity”. He presented this paper in accounting seminars at Columbia University, the University of Bern, and Indian School of Business. The paper is currently under review.

Currently, Sunil is working on a number of research projects which focus on understanding the role of accrual accounting information in managerial performance measurement. He was also invited to write a comprehensive review article on this broad topic for an accounting journal. In addition to serving on the editorial boards of The Accounting Review, Review of Accounting Studies, and Contemporary Accounting Research, he serves as an associate editor of Management Science.

**Information Asymmetry and the Increase in Cost of Equity before Earnings Announcements**

Disclosures that level the playing field between investors are critical for the functioning of an efficient capital market. By disclosing financial and other information, a firm makes sure that a broad base of investors is well informed about the firm’s performance. In the absence of such disclosures, some investors might obtain private information through independent market research, customers, suppliers, or even firms’ employees. This privately attained information may benefit the informed trader, but from the firms’ perspective its existence can increase the cost of equity and decrease the stock price. Investors will pay less for a stock, i.e. the cost of equity will increase, when they suspect that the trader selling the stock is better informed. This reasoning, for example, led Arthur Levitt, the past chairman of the Securities and Exchange Commission, to suggest that “high quality accounting standards … improve liquidity and reduce capital costs.” Professors Shai Levi and Xiao-Jun Zhang from the accounting group at UC Berkeley’s Haas School of Business, empirically examine this important relationship between information asymmetry – or extent to which private versus public information is available – and firms’ cost of equity and capital.

Shai and Xiao-Jun examine the change in cost of equity on the days before earnings announcements – when information asymmetry tends to be at its highest levels. For a sample containing 518,670 quarterly earnings announcements from 1971 to 2004, they find that cost of equity on average start increasing 6 trading days before the earnings announcement. This increase reflects the divergence in the private information that traders gained about the coming earnings announcements. On the day before the earnings announcements, for example, the cost of equity is about 5 times higher than its average level in other days during the fiscal year.

When separating firms based on their level of information asymmetry, Shai and Xiao-Jun find that this increase in cost of equity before earnings announcements exists for firms that usually have less public information, and correspondently more private information, available. Specifically, the increase in pre-
announcement returns is associated with an upsurge in trading volume of small firms, growth firms, firms with low analyst coverage, or firms with high earnings forecast error. For these firms, uninformed traders and market makers are likely to attribute the increase in trading volume before the earnings announcement to informed traders. Reluctant to bear losses from trading against these informed traders, investors will demand higher returns for holding the stock and the cost of equity will then increase.

The study of Shai and Xiao-Jun contributes to the academic literature that links the cost of capital to information asymmetry, or the extent to which public versus private information exists for firms. A firm’s cost of capital is fundamental to a variety of corporate decisions. From determining the hurdle rate for investment projects to influencing the composition of the firm’s capital structure, the cost of capital influences the operations of the firm and its subsequent profitability. This line of research suggests that firms can lower their cost of capital by disclosing information, whether it is through financial reports, management discussion and analysis, management forecasts, analysts’ presentations, press releases, internet sites, or other means of communications with investors.

Shai Levi, Assistant Professor
http://www.haas.berkeley.edu/faculty/levi.htm

• Equity Valuation
• Financial Reporting
• Financial Statement Analysis
• Voluntary Disclosures

Sunil Dutta, Egon and Joan von Kaschnitz Associate Professor of Accounting and International Business
http://www.haas.berkeley.edu/faculty/dutta.html

• Earnings and Management
• Information Economics
• Managerial Accounting
• Performance Evaluation Control
• Transfer Pricing
• Voluntary Disclosures

Alan Cerf, Professor Emeritus
http://www.haas.berkeley.edu/faculty/cerf.html

• Financial Reporting Ethics
• Professional Ethics
• Taxation

George Staubus, Michael Chetkovich Professor Emeritus
http://www.haas.berkeley.edu/faculty/staubus.html

• FASB Conceptual Framework
• Financial Reporting Ethics
• Financial Reporting
Sam Berde
http://www.haas.berkeley.edu/faculty/berde.html
Sam Berde joined the Haas School as a Lecturer in the Accounting Group in 2005. He is an Audit and Assurance Partner with PMB & Company, LLP. Sam provides auditing and assurance services to publicly and privately held companies, and provides consulting services related to SEC reporting and compliance matters, merger and acquisition transactions, interim CFO services, and forensic accounting services.

Sam was a manager in the San Francisco office of KPMG prior to joining PMB. During his seven years at KPMG, he worked in both the audit and consulting divisions and provided litigation support and business valuation services to consulting services clients. He spent several years working in Kuwait preparing financial compensation claims for Persian Gulf War damages, which were filed with the United Nations Compensation Commission.

Sam earned a BA in Business Economics from University of California, Santa Barbara, is a Certified Public Accountant.

Rada Brooks
http://haas.berkeley.edu/faculty/brooks.html
Rada Brooks has been a lecturer in accounting at the Haas School of Business since 1998 and has also served as the Executive Director of the Center for Financial Reporting and Management from 2002 to 2004. She started her career with Deloitte and Touche, and then held financial management positions with Wells Fargo Bank and Citicorp. In 1992, she decided to pursue a career in academics and has taught at the Loyola University of Chicago and International University of Japan before coming to the Haas School of Business.

Rada has a BS in Accounting from the University of Colorado, an MBA from the London Business School and is a Certified Public Accountant. She is a member of the American Institute of Certified Public Accountants and is currently serving on a CPA Simulations Development committee. She also serves as a board member for several nonprofit organizations in San Francisco.

Solomon Darwin
http://www.haas.berkeley.edu/faculty/darwin.html
Solomon Darwin teaches in the MBA and Executive Development programs at Haas. He was formerly Associate Professor of clinical accounting at the Marshall School of Business at the University of Southern California. Solomon brings more than ten years of national and international teaching experience in financial and managerial accounting, along with 14 years of senior management experience as corporate officer at Bank of America, First Interstate Bank, Glendale Federal Bank and Motorola Inc.

He also serves as chairman of the board for Project India, a nonprofit humanitarian organization, and spearheaded the establishment of a charity hospital and an international school in Mori, India.

Solomon holds a BA from San Francisco State University and an MBA from Golden Gate University. He completed an executive management program at Harvard University's Graduate School of Business.
Dennis Geyer
http://www.haas.berkeley.edu/faculty/geyer.html

Dennis Geyer has an international reputation as an expert in cost management and is recognized as an authority on activity-based management (ABM) including activity-based costing (ABC) and activity-based budgeting (ABB). His consulting practice specializes in strategic pricing, cost & performance measurement, cost reduction strategies, and strategic operations analysis. By linking business process analysis with finance, Dennis helps his clients identify opportunities to increase financial performance through improved operational design. Dennis has provided strategic advisory and systems design services to numerous clients in a wide variety of industries including banking, manufacturing, telecommunications, transportation and healthcare.

Dennis is also sought after as a speaker and educator. Besides serving on the faculty at the Haas School of Business, Dennis travels extensively, conducting public and customized seminars primarily to executive audiences in the U.S., Latin America and Southeast Asia.

Vic Stanton
http://www.haas.berkeley.edu/faculty/stantonv.html

Vic Stanton has been a Senior Lecturer at Haas since 1997. His consulting activities include corroborating expert witness for litigation representing Fortune 500 firms and International Law firms and assisting start up companies. Currently, he is working for Ford Motor Company in litigation matters. He has taught several executive seminars for companies like Oracle, AT&T, PG&E, State Farm Insurance, CSAA Insurance and audit/consulting seminars for several CPA firms. Vic assisted several authors and publishers with texts in Advanced Accounting, Intermediate Accounting, Financial Statement Analysis, Managerial and Financial Accounting.

Vic has been a successful CFO, Corporate Secretary and Board Member for companies in the high tech and publishing industries. He was a Corporate Controller in high tech manufacturing and senior auditor at PWC. He has raised large sums of capital from the public market, venture capital and angel investor communities. He holds a CPA, CMA, and a BA and MBA with concentrations in accounting and finance.

Suneel Udpa
http://www.haas.berkeley.edu/faculty/udpa.html

Suneel Udpa is a Visiting Lecturer at the Haas School of Business. He received his M.S. in Business and his Ph.D. in Accounting from Washington University, St. Louis, MO. From 1997-99, Professor Udpa was the Chair of the Department of Accounting at St. Mary’s College of California. From 1990-93, he was an Assistant Professor of Accounting at Emory University in Atlanta. He won the Earl F. Cheit Outstanding Teaching award at the Haas School of Business in 2003 and has been runner-up for the Cheit award three times in the past five years. His consulting interests are in the areas of cost systems, incentive contracts, and valuation for mergers & acquisitions. Professor Udpa’s research interests include: activity-based cost systems, information content of earnings announcements, and valuation.
Haas Undergraduate Team Takes Top Honors in KPMG’s Accounting Competition

A team of four Haas School undergraduate students won the western region finals of the 2006 KPMG Alpha Case Competition on April 1, held at the KPMG headquarters in Los Angeles.

Team members Sana Ahmed, BS 07; Margaretha Margaretha, BS 07; Daisy Cazares, BS 07; and Carlos Montesinos, BS 06, beat out teams from the University of Southern California, the University of Arizona, and the University of Washington, among others.

“Our students were assigned a challenging case on mergers and acquisitions in which they demonstrated their knowledge, research ability, and communication skills with great dexterity and competence,” says Solomon Darwin, executive director of the Center of Financial Reporting & Management and faculty advisor for the team. “They confidently addressed the tough questions posed by the judges relating to the tax accounting issues and legal structure of the business combination.”

Haas alumna Teresa Gayton, BS 91, a KPMG advisory partner, served as the professional advisor for the Haas team. Lecturer Victor Stanton, who teaches managerial accounting at the undergraduate level, worked with the students to prepare them for the competition; Professor Emeritus Alan Cerf advised on tax issues.

High Caliber Students Win PWC Case Competition

In the beginning of November, twelve teams from UC Berkeley competed in PricewaterhouseCoopers’s xTax (short for extreme tax) Case Competition. The case consisted of tax reform for a hypothesized country, with goals to increase privatization, spur growth, and maintain equity and fairness in the tax system. The teams were given two weeks to research, formulate their tax reform suggestions, and prepare a 12-minute presentation to PWC judges on November 16.

After all the presentations, the participating teams were invited to a dinner, where team “High Caliber” was named the winner. The team is composed of juniors Johnson Lieu, Ben Wu, and Jennifer Zhou, and sophomores Stephanie Chien and Davis Liu. They won $1,000 and interviews with PWC. It was recently announced that they were selected as one of the five xTax national finalists and will represent UC Berkeley at the National xTax Competition in Washington, D.C. Haas School Lecturer, Rada Brooks was recognized by PWC for being the Haas mentor to the students.
What is Accounting Jeopardy?

Undergraduate students answered the question in a game of Jeopardy at a “Back to School Ice Cream Social” after Spring Break on April 18 in the Wells Fargo Room at the Haas School of Business.

Executive Associate Dean Rich Lyons opened the event with a welcome to the students.

This was an opportunity for undergraduate students to learn more about career options in accounting. Representatives from KPMG, Deloitte & Touche, and PricewaterhouseCoopers hosted the event. It was a great opportunity for networking as well as answering questions relating to Accounting profession myths, accounting skills and qualities, beyond public accounting, and non-accounting careers in public accounting. They also watched a brief video “Bring it On” about accounting careers.

Besides winning prizes, networking and enjoying ice cream, the students gained more insight about the accounting profession.

On the Right Path

“Career Opportunities in Accounting …What it Could Mean For You” was the topic of a presentation by CFRM’s sponsors Deloitte & Touche, KPMG and PWC on September 25 at International House. A Career Enhancement Session (ACES) is offered each year by CFRM for the benefit of students interested in accounting careers.

Students were asked to think about how they knew which career path was right for them. Other topics discussed were: Accounting Fact vs Fiction; Common Misconceptions About Accounting; Core Skills of Future Accountants; Professional Certification; Becoming a CPA; Internships; and Average Salaries in the Accounting Profession.

Speakers at the Spring Welcome Back event and the Fall ACES event included:

KPMG:
Teresa Gayton - Advisory Partner
Hans Gude - Advisory Director
Anne Hwang - Advisory Associate
Dean Kamahele - Tax Partner
Mark McComb - Audit Partner
Stephen Son - Advisory Associate

PricewaterhouseCoopers:
Tyler Chapman - Associate
Nicole Havlicek - Associate
Jill Shurie - Campus Recruiting Manager
John Volk - Partner

Deloitte & Touche:
Jennifer Chow – Audit in Charge
Monica Jones – Campus Recruiting Manager
Anna Mok – Audit Partner
Kinman Tong – Audit Senior
Practitioners in the Classroom Educate Students with Real-World Cases and Experiences

CFRM invites accounting professionals into the classroom to share their “true-life” experiences of working in the accounting field.

This year’s topics included:
• Estate Planning
• Stock Options – Pros and Cons of Backdating
• Special Topics in Forensic Accounting
• Activity-Based Cost Modeling in a Sales Process
• Engagement Planning and Risk
• Accounting for Software Companies
• Financial Accounting Careers – Growth and Prospects
• Accounting for Leases
• Tax Considerations in Choosing a Form of Business Organization
• Federal Income Tax Accounting
• PCAOB Audit Issues and Fraud Testing
• Taking the CPA Exam
• Content of Audit Reports

MBA students developed Balanced Scorecards for real companies and made presentations to judges (from left to right): Teresa Gayton, KPMG; Tim van Oppen, Deloitte; Dell Hutchinson, PWC; Solomon Darwin, CFRM; Michael Bobroff, Ernst & Young; and Leroy Elkins, Apple Computers. The Managerial Accounting course was taught by Solomon Darwin as a part of the Full Time MBA program.

Students learn about opportunities in the accounting profession.

The panel consisted of partners from the accounting profession, moderated by Solomon Darwin, Director of CFRM.
PANELS AND GUEST SPEAKERS:

**Alan Cerf, Federal Income Tax Accounting**
Dell Hutchinson, Tax Partner, PWC
Susie Choy, Tax Partner, KPMG
Eric Lee, Deloitte & Touche
Nancy Young, Seiler & Co.
David Kanner, Partner, Seiler & Company, LLP
Brian Rowbotham, Partner, Rowbotham & Company
Ed Silicani, Partner, KPMG LLP
Larry Varellas, Partner, Deloitte & Touche LLP

**Alan Cerf, Intermediate Financial Accounting**
Tim van Oppen, Partner, Deloitte & Touche

**Rada Brooks, Introduction to Financial Accounting**
Zain McKinney, Partner, Deloitte & Touche
David Kanner, Partner, Seiler & Co.
Mark McComb, Partner, KPMG
Thai Trihn, Audit Associate, KPMG

**John Hildebrand, Partner, PWC**
Rachel Bell, Director, Protiviti
Bill Betts, Consultant in Internal Audit, Protiviti

**Vic Stanton, Intermediate Accounting**
Joe Hoffman, Professional Practice Partner, KPMG
Jennifer Lindsay, Forensics Partner, KPMG
Shivani Sopory, KPMG

**Vic Stanton, Advanced Financial Accounting**
Dave Marston, Partner, PWC
Laura Martinez, Partner, PWC

**Sam Berde, Auditing**
Mike Berg, Managing Partner, PMB & Company
Dean Skuppen, Partner, Stonefield Josephson
Doug Hart, SEC Audit Partner, BDO Seidman
Roger Phillip, CPA, CEO, Roger Philip CPA Review

**Dennis Geyer, Evening MBA Managerial Accounting**
Adam Gittler, Bus. Dev. Manager, Flextronics

Students were educated about “Recent Stock Option Events and Forensic Practices” by KPMG’s Jennifer Lindsay (Partner-Forensic); Joe Hoffman (Partner-Audit) and Shivani Sopory (Audit Associate).
Dean Campbell Hosts Roundtable Discussions with CFO’s

Dean Tom Campbell hosted two lunches for key financial executives – one in the Spring and one in the Fall. The guest list was intentionally kept small for personal interaction. Chief Financial Officers were brought together to discuss issues of common interest and exchange ideas.

Dean Campbell said, “Of great interest to me is what business schools can be doing to prepare our graduates for positions of responsibility in financial reporting and management.” He invited suggestions from the attendees on how Haas can further enhance the accounting curriculum and work towards creating quality students and future CFOs.

Solomon Darwin, Executive Director of CFRM joined the Dean in these discussions.

Guests included:

Howard Atkins, Wells Fargo Bank
Simon Bax, Pixar Animation Studios
Christina Cook, Bank of Marine
Mary Beth Fritzsimmons, Levi Strauss & Co.
Byron Pollitt, Jr., Gap, Inc.
Steve Rossi, Knight-Ridder, Inc.
Ed Scheuer, Protiviti
Beta Alpha Psi's Lambda Chapter Receives Superior Chapter Award
A Prominent International Student Fraternity at Berkeley

For the last 85 years, Beta Alpha Psi has provided its members with opportunities for academic, professional and personal development. As a premier international honors business fraternity, Beta Alpha Psi is globally recognized and resonates outstanding scholarship and professionalism. The Lambda Chapter, established in 1925, continues this legacy as a Walter A. Haas sponsored business fraternity on the University of California, Berkeley campus.

U.C. Berkeley is celebrated as an institution that is home to distinguished students with a diversity of interests and endless opportunities. Like the university, our Beta Alpha Psi chapter suits students’ multitude of academic and career goals.

This past summer, our chapter attended Beta Alpha Psi’s national conference in Washington D.C. With over 260 chapters and close to 300 professionals in attendance, The Lambda Chapter yet again received the Superior Chapter Award and solidified our presence as a leading chapter in the Western Region for Beta Alpha Psi.

This fall semester started off strong as we recruited 12 new individuals into our organization to embody the rich traditions of the Lambda Chapter. Our unique blend of activities included company presentations, mock interviews, professional development workshops, career development workshops, and more to strengthen the interpersonal, communication and leadership skills among our new initiates. In preparation for successful futures, we not only honed their professional skills, but also their social capabilities through team-building activities, community service events, and alumni bonding activities to foster brotherhood and solidarity between our members.

We have established a strong presence and have reached the campus wide population at U.C. Berkeley through our semi-annual career fair, Meet the Firms. With over 40 firms and 120 professionals, the Lambda Chapter has provided career opportunities to over 250 students during the fall recruiting season. Moreover, we also hosted the Big Four Forum and a Deloitte Consulting informational session. On October 25, our chapter hosted the fourth semi-annual Executive Series forum to the student population on Careers in Law. In addition to a Boalt School of Law professor who was the former Director of Real Estate Tax in Washington, D.C., six law firms shared various backgrounds in law ranging from corporate and securities law to employment and intellectual property rights law.

The Lambda Chapter of Beta Alpha Psi is ecstatic about this semester. We would like to thank Solomon Darwin, our Faculty Advisor, for his leadership, and our alumni, faculty, and professionals for their strong support. Their contributions have allowed us to continually put on these quality events and provide a solid educational training program for our members. It has definitely been a privilege to be part of such a wonderful network of people that are determined to provide professionalism and academic knowledge to the business community and beyond. With that in mind, feel free to contact our fraternity if you would like to discuss possible events by emailing jclee@berkeley.edu

Best Regards,
Jessica Shu
President, Lambda Chapter
Seven Haas undergraduate students were honored with scholarships from the East Bay Chapter of the Certified Public Accountants Society at a special dinner held on January 17 in Oakland.

Eric Fleekop, BS 06, and Catherine K. Ho, Bixian Liao, John Lee, Yi Yun Shen, Sachin R. Thadani, and Benji Williams, all BS 07, received seven of the nine scholarships granted this year to students interested in becoming certified public accountants (CPAs).

The scholarships range from $750-$2,500 and benefit students of East Bay colleges or universities. To be eligible, students must be accounting or business majors in their junior or senior years with an accounting or tax emphasis, or graduate business students with an accounting emphasis.

Rada Brooks, Lecturer at the Haas School of Business said, “We are fortunate that the East Bay Chapter of the CPA Society is so committed to helping the next generation of CPAs achieve their educational goals by providing scholarships. Given the unprecedented number of Haas students who received scholarships, this group of students was really impressive in how dedicated and hard working they are in pursuing a career in accounting.”
**Jenny Chu**, from Hong Kong, graduated from the Bachelor of Business Administration program at the University of Michigan, Ann Arbor in 2000 with High Distinction and received her MBA in 2005 from UC Berkeley. Jenny worked as an Investment Banking Analyst at Credit Suisse First Boston, and was an Assistant Portfolio Manager at Barclays Global Investors. Her research interests include the role of accounting information in firm valuation, and the role of sell-sell analysts in financial markets.

**Jung Hoon Kim**, from Seoul Korea, received high honor awards while earning his BS in Radio Communication Engineering with a minor in Business Administration from Yonsei University in Korea in 2000. He received his MBA in 2005 from INSEAD, Fontainebleau, France and Singapore, where he was honored with the Eli Lilly and Company Innovation Scholarship. His research interests are in valuation of early stage companies, earnings management and intangibles and R&D activities. Jung Hoon was awarded the US Army Commendation Medal while serving in the 501st Military Intelligence Brigade in the US Army from 1993 to 1995. He has a diverse career background: he was an Assistant Manager for SBSi (Seoul Broadcasting System Media Group), an Officer at The Korea Development Bank in Seoul, and worked as the Asia Pacific Regional Finance Manager for Syngenta.

**Kwang June Lee**, born and raised in the Republic of Korea, received a BS in Engineering from Seoul National University in 2000. In 2004 he received a Master of Public Policy from KDI School of Public Policy and Management in Seoul. Kwang came to the United States in 2004 to begin his graduate studies and completed the PhD coursework in Finance at the University of Illinois at Urbana-Champaign in August 2006 before transferring to UC Berkeley for his PhD studies in Accounting. His research interest is in Empirical Financial Accounting (Capital Market Research) and Behavioral Finance.

**New Student Orientation Offers Students An Opportunity to Learn About the Accounting Profession**

The Haas School welcomed 348 new undergraduate business majors with an afternoon carnival July 7 in the school’s courtyard.

This year's undergraduate class was selected from a pool of 1,614 applicants. The total enrollment of students in the undergrad program at Haas now sits at about 700.

The New Student Welcome Carnival introduced the incoming undergrad business majors to the many student organizations that they can join at Haas. Students played games and won prizes while getting acquainted with such organizations as the Latin American & Hispanic Business Association and Beta Alpha Psi, the honors fraternity for accounting and financial information professionals.

The Center for Financial Reporting and Management again hosted a booth at the orientation and was joined by Haas alumni and friends from its sponsoring firms. Representatives bring logo gift items that the students win while playing a “Toss Across” game. Accounting firm representatives answer students’ questions about accounting careers and it also gives the firms an early opportunity to meet the students.

**Firm Representatives:**

**Deloitte & Touche**
Anna Mok, Partner
Jessica Ross, Manager

**PricewaterhouseCoopers**
Jean Hauser, Assurance and Bus. Advisory Services Manager
Peter Tang, Tax Associate

**KPMG**
Manisha Patel, Audit Associate
Michelle Thomsen, Senior Recruiter

**Seiler & Company**
Anthony Rozenvasser, Senior Accountant
Bryan Blythe, Staff Accountant
Julie Wang, Staff Accountant
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CFRM is grateful to the corporate community for their support. The Center seeks sponsors and affiliates from public accounting, industry, consulting, investment banking, and money management firms.

Our Executive Sponsors contribute $30,000 annually on a renewable three-year term and are represented on the Center’s Executive Committee. Corporate Sponsors contribute $10,000 annually for a renewable three-year term and are asked to appoint one member to the advisory board. Affiliate organizations and individuals contribute $5,000.

There are more than a dozen benefits of being a Sponsor of CFRM including opportunities to guest lecture in the classroom and access to accounting faculty and students. Visit our webpage to view the full benefits at: http://groups.haas.berkeley.edu/accounting/corporate_sponsorship.

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About the Center

As part of the Haas School of Business, the Center for Financial Reporting and Management (CFRM) provides the accounting community with opportunities to get involved in the development of academic programs and professional activities. The Center has organized many conferences regarding issues in the current accounting world, including topics such as special-purpose entities, stock options and off-balance sheet financing. Its annual conference on financial reporting is especially noteworthy.

Mission Statement

• To promote the most innovative financial and managerial accounting education in the country through cutting edge research, outstanding teaching, globally focused curriculum and attention to ethical behavior.
• To enhance interaction between students, faculty, practitioners, standard-setters, regulators and business leaders.

Our Commitment

As part of an internationally acclaimed research university, we are committed to promoting high quality financial reporting in the business community worldwide.

Our Core Values

1. Instruction
   Teach innovatively to produce highly-sought-after graduates and tomorrow’s global leaders through continuous enrichment of the curriculum in response to changing needs in the market place.

2. Research
   Engage in cutting edge research relevant to the dynamic global business environment.

3. Interaction
   Facilitate dialogue between academicians, accountants, regulators, national/international standard setters and the business community at large.

4. Relationships
   Build productive partnerships with business leaders, employers, and alumni, to explore and seek guidance regarding educational issues that are critical to the future of the accounting profession.

5. Ethics
   Nurture and promote corporate and social responsibility including ethics and values to govern businesses and personal behavior.