

The Professional Accountant

Rutgers University Business School, Newark NJ

Stephen Verrone: Alumni Spotlight



**Stephen Verrone,
Sr. Manager at
Ernst and Young**

By Anne Johnston

Stephen Verrone, Senior Manager, Professional Practice - Financial Services, has been with Ernst and Young LLP since his winter internship while in

the PAMBA program in 1999.

Mr. Verrone graduated from Rutgers University in 1998 with a B.A. in Biology and was on a pre-med track. However, during his senior year of undergraduate studies he realized through internships at hospitals that the sight of blood was not all that appealing. He had an interest in learning more about financial institutions and decided to pursue his MBA in Professional Accounting, the PAMBA program. He graduated from PAMBA in 1999.

The life of a public accountant can be a demanding one. Mr. Verrone agreed that the intensity of the 14 month PAMBA

program provided many of the tools and the foundation of knowledge needed to pass the CPA exam and to begin a career in Public Accounting. PAMBA provided him with the experience of working with diverse teams in order to get projects done. The ability to work in teams and to communicate are two key skills that are practiced in the field of public accounting, and are skills that Mr. Verrone believes PAMBA helps to teach students. During his professional career Mr. Verrone has had many accomplishments. His most notable was receiving the Mentoring Partnership of NY's "Corporate Mentor of the Year Award" in 2008. The award was given (cont. on page 7)



Welcome to PAMBA class of 2013!

The PAMBA class of 2012 extends a warm welcome to the incoming class of 2013!

Most of you have already met your "mentor" student from 2012. Please take advantage of the benefits and opportunities that this

mentorship will provide for you! Your 2012 mentor can help you cope and adjust to the demanding schedule of the program. Your mentor can give you insight about the demands of your courses and give you advice depending on his/her own experiences.

This first semester is the most critical one. The firms will be meeting the class of 2013 this summer and offering internships based partly on your first semester performance. So please do not be shy in asking for advice and assistance! Good Luck!

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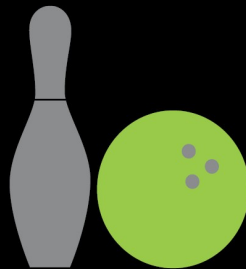
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Stephen Cosgrove, VP of Johnson and Johnson, is featured speaker at the 2012 PAMBA Alumni Dinner!

Stephen J. Cosgrove, who has been the Vice President, Corporate Controller and Chief Accounting Officer at Johnson and Johnson since October 2001, will be the featured speaker at the PAMBA 2012 Alumni Reception Dinner on June 21st.

Stephen has been with J & J since 1974, when he joined as an undergraduate recruit and has since worked in multiple companies within J & J.

He was the Finance Director for J & J affiliates in Belgium, Holland, and the UK. He was also the VP of Finance and Information Management with J & J Consumer Products and the VP of Finance for the Consumer & Personal Care Group.

Steve is a member of both the Accounting Advisory Board and School of Business Executive Advisory Board at Rider University. He

is also the Chairman of the Rutgers Accounting Advisory Council. Steve was a member of the Financial Accounting Standards Advisory Council (FASAC) from 2005 through 2009, working with the Financial Accounting Standards Board (FASB) and is currently a member of the Financial Executives International (FEI) Committee on Corporate Reporting (CCR). Steve graduated from Rutgers with a BA and from Rider with an MBA.



Stephen Cosgrove is the VP, Corporate Controller and Chief Accounting Officer of J&J.

PAMBA ALUMNI **UPDATE REQUEST!**

Please email
your updated contact
information to:

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Please contact:

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MF Global and the Repo to Maturity Accounting Issue

By Deniz Appelbaum

The financial news has been full of reports about the recent demise of the bond and commodities trading firm, MF Global (MF), which also happened to be run by NJ's former governor John Corzine. Most of the attention has gone to tracking and recovering the 1.6 billion dollars of client funds. However, few have commented on the type of accounting that MF used to recognize its bond transactions. Basically, MF recognized these transactions as a "sale", thereby falsely inflating its financial position, when in fact they had

borrowed money against the bonds and were to buy back these bonds by late 2012.

What exactly is a bond repo transaction and how should it be handled according to the IFRS standard 39 and the FAS 140 and 166?

According to KPMG in its Defining Issues April 2012 issue, "A repo with a term that ends when the transferred financial asset matures is known as a repo to maturity, which MAY meet the criteria to be accounted for as a sale under US GAAP." The basic idea is that the transferor

does not regain possession of the bond before its maturity and thus is said to have relinquished effective control. In this case, MF buys \$2 Billion of Italian bonds yielding 5% interest. MF does a repo to maturity with a 3rd party X, at a rate of 2% interest: MF gives X the \$2B of bonds, and X gives MF \$1.8 B in cash. MF pays to X the 2% interest as negotiated, BUT MF still receives the coupon payments on the bonds! When the bond matures, MF pays \$2B to X to buy back the bonds. The advantage for MF is that during the repo to ma-

turity the bonds are off of MF's books, not to mention a 3% spread. However, as part of the repo agreement, MF had to keep a certain amount of margin in reserve, and when the Italian bond market grew shaky X demanded a larger margin, and the rest is history as MF could not cover those margin calls.

May this transaction be accounted for as a sale according to US GAAP? In this particular transaction, MF was still receiving the benefit of the bond coupons and was still liable for the losses if the bond defaulted and for margin calls if the market value of the bond declined. According to FAS 166, a sale does not indicate any further continuing financial interest, involvement, or responsibility for the asset that is sold. Does receiving cash flows from the bond indicate participating interest? Does the fact that MF was liable for default and margin calls indicate a continuing involvement? Did MF really relinquish control since they are buying the bonds back at maturity?

According to the IRFS in IAS 39, AG 51 (a), "if the financial asset is sold under a repurchase agreement, it cannot be derecognized from the books as the transferor retains substantially all the risks and rewards of ownership".

The FASB announced this March 21st that it will be taking another look at repo to maturity accounting practices.

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Stephen Verrone, Continued

(from page 1) in recognition of his commitment to mentoring and making a difference in a young person's life.

PAMBA was a key factor in preparing Mr. Verrone for the demanding life of a public accountant, but maintaining a healthy work - life balance is essential. Mr. Verrone believes that teamwork and technology are two things that make flexibility possible. He aims to coordinate and priori-

tize schedules with his colleagues and the ability to work remotely when needed helps to maintain a healthy balance. Despite his busy schedule, Mr. Verrone enjoys spending time with his wife and two young daughters. He enjoys listening to the music of big bands and Frank Sinatra as well as singing American popular standards during an hour long monthly show he puts on at a local nursing home.

When asked if he had any suggestions for current or future PAMBA students, the first one that Mr. Verrone mentioned was to pass the CPA exam as soon as possible. He stressed that enthusiasm and eagerness to learn at all times are key in your professional career. He also stressed the importance of finding a mentor - someone who can help point you in the right direction and pass along lessons from experience.



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**Michelle Morris • WithumSmith+Brown Staff I Accountant
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