

Accountancy Project Advisory Panel
August 19, 2009
Meeting Summary

The California Research Bureau (CRB) was asked by the Senate to explore the policy options before the state to improve licensing standards for Certified Public Accountants.

To support that task, the CRB assembled an advisory panel to assist the Bureau's efforts to identify and articulate questions of concern, relevant data and materials important to the project. CRB convened an initial advisory panel meeting on June 11, 2009 and second meeting on August 19, 2009. This is a summary of the second meeting.

In June, meeting participants identified three strategic goals associated with changes to California's licensing standards for CPAs. They are:

- ✓ Fortifying consumer protection;
- ✓ Enhancing commerce; and
- ✓ Leveling the playing field to ensure underrepresented Californians have access to licensure.

During the August meeting, the panel covered the impact of the proposed 150-hour rule change on the first two of those three goals. This summary reflects the discussion during the meeting.

Discussion – The 150-Hour Rule and its impact on consumer protection

Meeting participants discussed the following themes.

- The accounting profession has become markedly more complex in recent years. Changes to the licensing standards are intended to ensure that licensed CPAs can effectively deliver the services required in the marketplace.
- The state is the primary regulator of CPAs in California. State licensing is the first step in ensuring competency.
- Licensing requirements must be recognized as setting a minimum standard for operating in the marketplace. Licensing is not intended or designed to ensure that all licensees are trained or equipped to respond to the increasingly sophisticated demands of a global marketplace.
- The accounting profession, led by the National Association of State Boards of Accountancy (NASBA) has long recognized that state-level licensing has resulted in disparate licensing standards across the country (NASBA is made up of 55 licensing entities, which include the 50 states along with Washington, D.C., Guam, Puerto Rico, the Virgin Islands and the Commonwealth of Northern Mariana Islands). To preserve states' rights over licensing, and to also move toward a common licensing standard, NASBA has promoted the adoption of a Uniform Accountancy Act (UAA) by each licensing entity.

- Participants indicated that a majority of states have adopted the UAA standard – or a standard recognized by NASBA – as “substantially equivalent” to the UAA standard. For California’s licensing requirements to conform to the UAA standard, the state would need to amend its statutes to require each candidate for licensure to complete 150 semester hours of education from an accredited institution.
- Some meeting participants asserted that the higher educational requirement established under the UAA is designed to better reflect the demands of the field. The nexus between the licensing standard and consumer protection is reflected in the expectation that better trained candidates would improve the quality of the accounting services they provide and thus enhance consumer protection.
- Meeting participants discussed the rationale behind the requirements for 150 hours of education while eliminating California’s alternate licensing pathway, which requires (in part) 120 semester hours. More specifically, participants discussed the rationale behind the additional 30 hours and how those 30 hours were envisioned to improve licensing.
- Participants pointed out that within the field, discussions focus on 150 hours because it can be the equivalent to earning a Master’s degree. They also pointed out that the additional 30 hours – known as the “hollow 30” hours – are not mandated in a given field so that potential licensees have the flexibility to take coursework in an area of concentration, such as agribusiness, entertainment, international trade, etc.
- At least four states have elected to put restriction on the coursework that counts toward the additional 30 hours, including Indiana, Kansas, Louisiana, and Vermont.
- Participants pointed out that the increase in coursework required under the 150-hour rule also was intended to enhance the maturity of candidates for licensing. In deliberations within NASBA over the requirement, members reasoned that an additional year of education would improve the decision-making of licensing candidates. It was argued that candidate maturity would be enhanced by the additional training.
- But the actual impact of added educational requirements is not clear. Participants pointed to research sponsored by the profession that found no difference in testing outcomes between candidates with 120 or 150 hours of education. Others highlighted comments from the various state boards and other experts that questioned the research design. In short, participants affirmed that there is no conclusive evidence that requiring the additional 30 hours of coursework is beneficial. Nor is there conclusive evidence that it is not.
- Participants were asked if the 150-hour rule was adopted in response to any specific problems or concerns with the quality of licensing applicants or licensed CPAs. Participants indicated that adopting the 150-hour rule was considered a proactive strategy rather than a response to problems in the profession.

- Participants also discussed other strategies to enhance consumer protection, including efforts to improve reporting of disciplinary actions and ensuring customers have better access to information on licensing and licensees.
- Some asserted that without improved access to licensing and disciplinary information on out-of-state licensed CPAs, consumer protection in California could be hampered. Adopting the UAA standard in California might result in an increase level of practice by CPAs licensed in states that do not permit customers to view their licensing histories through on-line disclosure.

Discussion – The 150-hour rule and enhancing commerce

- The UAA envisions that a consistent standard for licensing across the nation will enhance commerce by permitting licensees from “substantially equivalent” states to practice in all “substantially equivalent” states without the burden of seeking permission in each of the states or licensing jurisdictions.
- NASBA offers a certification service that reports whether states have licensing standards that are consistent with the UAA. Under the model Act, each state is expected to grant practice privileges to all licensed CPAs from those states that meet the UAA licensing standard.
- Most states provide other avenues to permit CPAs licensed by another state to operate within their borders, even if they are licensed by a state that is not considered substantially equivalent. Those avenues frequently include certifying that a licensed CPA has been licensed for at least four of the past 10 years (the “4 in 10 Rule”) or allowing the CPA to demonstrate individually that he or she meets the licensing standard from that state.
- Participants pointed out that the substantial equivalence declaration is designed to reduce the burden placed on CPAs who would otherwise need to demonstrate individual substantial equivalency or meet the “4 in 10 Rule” experience standard. Some states have significantly onerous paperwork, fee requirements or delays in processing that can inhibit the ability of a CPA or a firm to serve their clients efficiently. For small firms that work with clients who have outlets in many states, securing permission to work in many states is both expensive and time consuming.
- Yet the discussion revealed that under the UAA, states have until 2012 to adopt the 150-hour licensing requirement. Prior to 2012, license applicants are required to have 120 hours of education.
- Under the NASBA certification service, California is currently recognized as being substantially equivalent, but a notation is included on the NASBA website indicating that the state will not be substantially equivalent in 2012 unless it adopts the 150-hour provisions as a sole path to licensing.

- Despite the current NASBA certification that California is substantially equivalent under current standards, participants pointed out that many states fail to recognize California’s substantial equivalence and thus require individual certification.
- Participants pointed out that many states do not rely on the NASBA certification of substantial equivalence, instead performing their own certification based on their assessment of the licensing requirements of each state. These states may continue to require individual CPAs to apply for individual substantial equivalence. Some states apparently have accelerated the 150-hour requirement, such that all licensees must demonstrate that they meet the standards in place in those states at the time of licensure, the “4 in 10” rule, or individual substantial equivalence.
- CRB staff reported and others affirmed, that in communications with other states, those states reported that their licensing standards were in flux and they could not conclusively say that the adoption of the 150-hour rule by California would eliminate or reduce barriers to cross-state practice for California-licensed CPAs.
- Some participants asserted that some states will eliminate the “4 in 10” path to practice privileges or licensure. The “4 in 10” rule eliminates the requirement that all licensees meet updated standards. It was unclear to what degree other states would continue to “grandfather” other states’ licensees when they seek to practice public accountancy across state lines.
- If all licensing jurisdictions adopted substantial equivalency, there might be no further need for the “4 in 10” rule. However, other panelists stated that because states do not fully embrace the notion of substantial equivalency, eliminating the “4 in 10” provision could exclude some practicing CPAs from working across state lines.
- Participants generally agreed that California’s adoption of the 150-hour rule has the potential to streamline cross-state practice and enhance commerce, but its effectiveness depends on how each licensing entity interprets and implements the UAA and how they interpret California’s statutes. For states that do not currently follow the NASBA certification of substantial equivalence, it is unclear if adoption of the 150-hour rule by California would improve opportunities for commerce.
- Participants briefly discussed other options for enhancing commerce, including negotiating specific agreements between California and other states, which could more fully ensure California-licensed CPAs can practice in those states.
- Participants pointed out that the UAA is intended to establish a uniform standard so that those agreements need not be negotiated. But recognizing that individual states – including California – preserve the right to set licensing standards and that they inconsistently apply the UAA standard, it is difficult to conclude that in the absence of a specific agreement, California licensed CPAs would be extended privileges to practice in other states even under the UAA.