

**Minutes of May 2011 ECC Meeting**



**DEPARTMENT OF CONSUMER AFFAIRS**  
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**DEPARTMENT OF CONSUMER AFFAIRS (DCA)**  
**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)**

**AEC/ECC Agenda Item X**  
**June 7, 2011**

**MINUTES OF THE**  
**May 18, 2011**  
**ETHICS CURRICULUM COMMITTEE (ECC) MEETING**

Hyatt Regency San Francisco Airport  
 1333 Bayshore Highway  
 Burlingame, CA 94010  
 Telephone: (650) 347-1234

Roll Call and Call to Order

Donald Driftmier, Chair, called the meeting of the ECC to order at 12:30 p.m. on Wednesday, May 18, 2011 at the Hyatt Regency San Francisco Airport. Mr. Driftmier indicated that to ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full CBA are present at a committee meeting, members who are not members of that committee may attend the meeting only as observers. CBA members who are not committee members may not sit at the table with the committee, and they may not participate in the meeting by making statements or by asking questions of any committee members.

ECC Members

Donald Driftmier, Chair	12:30 p.m. to 2:59 p.m.
Gary McBride	12:30 p.m. to 2:59 p.m.
Jon Mikkelsen	12:30 p.m. to 2:59 p.m.
Steven M. Mintz	12:30 p.m. to 3:59 p.m.
Gary Pieroni	12:30 p.m. to 2:59 p.m.
Robert Yetman	12:30 p.m. to 2:59 p.m.
Michael Ueltzen	12:30 p.m. to 2:59 p.m.
Dave Cornejo	Not Present
Gonzalo Freixes	Not Present

CBA Members

Sally Anderson, President

Staff and Legal Counsel

Patti Bowers, Executive Officer  
 Dan Rich, Assistant Executive Officer  
 Deanne Pearce, Chief, Licensing Division  
 Dominic Franzella, Manager, Licensing Division

Veronica Daniel, Executive Analyst  
Rich Andres, Information Technology Staff

Other Participants

Hal Schultz, California Society of CPA's  
Jeannie Tindel, California Society of Certified Public Accountants (CalCPA)  
Pilar Onate-Quintana, KP Public Affairs  
Charles Ozaki, Accounting Education Committee of the California Society of CPA's  
John Angelo, CalCPA  
Kristine Caratan, Santa Clara University, San Francisco State University

Mr. Driftmier informed the committee that Michael Shames had resigned. He read the letter of resignation submitted by Mr. Shames into record.

I. Approve Minutes of the April 6, 2011 ECC Meeting

Mr. Mikkelsen requested that the statement on page 13 be amended to read "placing a limit on the total units allowed for only those disciplines listed under the capped category."

**It was moved by Mr. Yetman, seconded by Mr. McBride, and carried by those present to approve the minutes (Attachment #1) as amended.**

II. Update on Accounting Education Committee Activities

Ms. Pearce provided an oral report for this item. She reported that the AEC met on May 9, 2011 and finalized their proposal for the 20 units of accounting study. The recommendation is summarized as follows: all 20 units of accounting study shall be completed at an upper division level or higher; a minimum of six units to be completed in accounting subjects; a maximum of 14 units to be completed in business-related subjects and of those 14 a maximum of nine units may be completed in other academic work relevant to accounting and business, and a maximum of four units may be completed in internships or independent studies. Additionally, the AEC is recommending that a Master of Accounting, Master of Taxation, or Master of Laws in Taxation be deemed equivalent to the completion of the 20 units of accounting study. They are moving forward via regulation and plan to have a public hearing on the master degree portion at the July board meeting.

III. Report of the Subcommittee's April 14, 2011 Meeting and Proposal for the 10 Units of Ethics Study Required for CPA Licensure Beginning January 1, 2014

Mr. McBride and Mr. Yetman presented the memorandum for this item  
**(Attachment #2)**

Mr. Yetman inquired if members would be open to a motion on the table prior to holding discussions. Mr. Driftmier suggested that discussions be held prior to a motion. Mr. McBride outlined the differences the subcommittee made from the first proposal. In the revised proposal, accounting fraud was removed from Recommendation #1 – Mandated Accounting Ethics. He also stated the second bullet under this recommendation should be amended to read “until that time applicants can meet this requirement using any un-capped or capped courses. He pointed out Legal Environment and Business should be corrected to read Legal Environment of Business which was added to Recommendation #2 – Un-Capped Courses. Mr. McBride explained the reasoning for keeping the disciplines religion and theology under Recommendation #3 – Capped Courses. Additionally, he stated economics and political science were added to this recommendation and the rationale for this inclusion was explained in the report. When considering the disciplines for Recommendation #3, it was the subcommittee’s intent to allow only introductory courses which lay the foundation for the general objective, goals, and principles these disciplines seek to instill students. Therefore, the subcommittee recommended courses taken in these disciplines contain words or terms as outlined in the revised proposal.

Mr. Mikkelsen had concerns with including economics as one of the disciplines. Mr. Yetman explained the intent was to strike a balance to include enough categories for schools to meet this requirement and make it easier for the student to reach this goal. He believed they were leaning more towards qualitative courses and wanted at least one quantitative course even though not all of the course may form a basis for ethical reasoning. Mr. Mintz concurred with Mr. Mikkelsen and believed qualitative courses and not quantitative courses were needed. If qualitative courses were what were wanted, he recommended the seven capped and un-capped units, which he objects to, be revised. He suggested the capped category be set at three units, and create a new category to include courses and areas that address ethical issues specific to business and accounting practice to include courses like business ethics, accounting auditing and financial statement fraud, and legal business environment.

Mr. McBride encouraged the committee to proceed with a motion and then vote on specific items instead of having open discussions. Mr. Ueltzen suggested the committee address each recommendation in order for discussion purposes.

#### **Motion #1**

**It was moved by Mr. Ueltzen, seconded by Mr. Yetman, to adopt the proposal for ethics study guidelines as reflected in Attachment #1. This motion was later amended and approved by those present to include motions #2, #3, #5, and #6. Mr. Mintz opposed.**

Mr. McBride made a friendly amendment to include the minor previously stated amendments by referring to capped or un-capped courses in Recommendation #1 and correcting the course title Legal Environment of Business in Recommendation #2.

Mr. Mintz did not approve of Mr. McBride's recommendation on the language in the second bullet for Recommendation #1. Additionally, he believed three years to comply with the mandated accounting ethics requirement was too long and should be changed to 2016. Hal Schultz explained that the deadline 2017 applied to the applicant to specifically complete this requirement and not directed at the colleges/universities. Based on this explanation, Mr. Mintz withdrew his objection.

#### **Motion #2**

**It was moved by Mr. Ueltzen, seconded by Mr. McBride, to modify the last sentence of the second bullet in Recommendation #1 to read "any capped or un-capped courses." This motion was later amended and approved by those present to modify the last sentence of the second bullet in Recommendation #1 to read: Until that time applicants can meet this requirement using any of the following courses. Mr. Mintz opposed.**

Mr. Ueltzen suggested adding "not more than three units in capped courses" to this sentence. Mr. McBride suggested tabling the language for this sentence until the language for the un-capped and capped recommendations was addressed.

Further discussions were held regarding the mandated accounting ethics requirement and the legislative intent.

#### **Motion #3**

**It was moved by Mr. Ueltzen, seconded by Mr. Yetman, to add business ethics to Recommendation #1. Mr. Driftmier, Mr. McBride, Mr. Mintz, Mr. Pieroni, and Mr. Yetman opposed. The motion failed.**

Mr. Mikkelsen stated it was important to have accounting specific ethics. Mr. Pieroni suggested business ethics be moved under the un-capped area.

Mr. Mintz suggested that Recommendation #2 be revised to consist of business ethics, corporate social responsibility, accounting/auditing financial statement fraud, legal environment and business, and corporate governance and removing the remaining courses.

#### **Motion #4**

**It was moved by Mr. Mintz to have four categories: Number 1, accounting ethics or accounting professional responsibilities; Number 2, corporate ethics and leadership to include business ethics, corporate social responsibility or business government and society, accounting/auditing/financial statement fraud, ethical leadership, corporate governance, and legal environment of business, Number 3 three or four units of capped courses with the exception of economics, and number 4 remains as recommendation #4 of the proposal. As there was no second to the motion, the motion failed.**

Ms. Anderson commended the committee on their efforts and diligence throughout this process. She encouraged a proposal that was less complicated and more practical for the students. She urged members to come up with courses which meet the legislative intent while still allowing students leeway in taking courses.

Mr. Mikkelsen suggested the committee may be overstepping its ground by defining individual course titles but understands the necessity for it. He stated it may be easier to implement if wording was included to say equivalency of topics or topics or courses like these which would thereby include courses that may not be listed in the proposal. Mr. Yetman explained there would be no way of ensuring courses met the intent of the law if course titles were left open ended. He was in favor of adding corporate social responsibility to the list.

**Motion #5**

**It was moved by Mr. Mikkelsen, seconded by Mr. McBride, and carried by those present, to add corporate social responsibility to the list of courses for Recommendation #2.**

Mr. Ueltzen suggested removing the terms capped and un-capped and having one aggregate listing of courses. Further discussion followed regarding implications should all seven units be taken under the existing capped category.

**Motion #6**

**It was moved by Mr. Ueltzen, seconded by Mr. McBride, and carried by those present to strike the terms Recommendation #2 – Un-Capped Courses and Recommendation #3 – Capped Courses to Recommendation #2 – Courses and Recommendation #3 – Disciplines and strike the sentence which says “no more than three semester units may be applied from any one discipline.” Mr. Mikkelsen and Mr. Mintz opposed.**

Mr. Mikkelsen expressed concern on allowing students to take courses in general areas without having exposure to the contextual decision making within business or only focusing on accounting practice courses. Mr. Mintz concurred.

The committee had no objections or changes to Recommendation #4.

There being no further discussion, the committee revisited the motions on the table. At this time members voted on Motion #2 which was to modify the last sentence of the second bullet of the proposal and Motion #1, the adoption of the proposal.

Mr. Mikkelsen suggested that the un-capped and capped terms under Recommendation #2 and #3 be changed to Ethics and Business and Ethical Foundations.

#### IV. Update on Joint ECC/Accounting Education Committee Meeting

Ms. Pearce presented the memorandum for this item (**Attachment # 3**). Ms. Pearce reported extensive outreach had been done to notify stakeholders of the upcoming June 7, 2011 joint AEC/ECC meeting, with over 700 save-the-date emails, formal e-mails with a flyer and invitations being sent to colleges and universities, as well as, other stakeholders. The meeting will be web casted and CBA Sally Anderson will be the moderator.

#### V. ECC Timeline and Future Agenda Items

Mr. Franzella presented the memorandum for this item (**Attachment #4**). He reported it was anticipated the ECC would need to convene for two additional meetings after the June 7, 2011 meeting to approve the letter that must be issued during the public comment period and to approve the report to the Legislature. Mr. Yetman suggested the final report meeting be held by teleconference. The committee recommended staff draft letter and report. Ms. Pearce explained any minor adjustments to the proposal could be done and voted on at the June meeting in advance of the July CBA meeting.

#### VI. Public Comments

No public comments were offered.

#### ADJOURNMENT.

There being no further business to be conducted, the meeting was adjourned at 2:59 p.m. on Wednesday, May 18, 2011.

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Donald A. Driftmier, Chair

Prepared by Cindi Fuller, Licensing Coordinator



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**Draft**

**DEPARTMENT OF CONSUMER AFFAIRS (DCA)**  
**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)**

**CBA Agenda Item VII.G.**  
**May 19-20, 2011**

**MINUTES OF THE**  
**April 6, 2011**

**ECC Agenda Item I**  
**May 18, 2011**

**ETHICS CURRICULUM COMMITTEE (ECC) MEETING**

California Board of Accountancy  
 2000 Evergreen Street, Suite 250  
 Sacramento, CA 958151  
 Telephone: (916) 263-3680

Roll Call and Call to Order

Donald Driftmier, Chair, called the meeting of the ECC to order at 12:32 p.m. on Wednesday, April 6, 2011 at the California Board of Accountancy. Mr. Driftmier indicated that to ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full CBA are present at a committee meeting, members who are not members of that committee may attend the meeting only as observers. CBA members who are not committee members may not sit at the table with the committee, and they may not participate in the meeting by making statements or by asking questions of any committee members.

ECC Members

Donald Driftmier, Chair	12:32 p.m. to 3:00 p.m.
Gary McBride	12:32 p.m. to 3:00 p.m.
Jon Mikkelsen	12:32 p.m. to 3:00 p.m.
Steven M. Mintz	12:32 p.m. to 3:00 p.m.
Gary Pieroni	12:32 p.m. to 3:00 p.m.
Robert Yetman	12:32 p.m. to 3:00 p.m.
Michael Ueltzen	12:32 p.m. to 3:00 p.m.
Michael Shames	12:32 p.m. to 3:00 p.m.
Dave Cornejo	Not Present
Gonzalo Freixes	Not Present

Staff and Legal Counsel

Patti Bowers, Executive Officer  
 Deanne Pearce, Chief, Licensing Division  
 Dominic Franzella, Manager, Licensing Division  
 Cindi Fuller, Licensing Coordinator  
 Kari O'Connor, Licensing Analyst  
 Rich Andres, Information Technology Staff

### Other Participants

Jeannie Tindel, California Society of Certified Public Accountants (CalCPA)  
Jason Fox, CalCPA  
Pilar Onate-Quintana, KP Public Affairs  
Chrislynn Freed, California Society of CPAs, Accounting Education Committee  
Ramona Farrell, Ueltzen & Company, LLP  
Suzanne M. Ogilby, California State University, Sacramento (CSUS)  
Charles Davis, CSUS  
Maria Nondorf, University of California, Berkeley

- I. Approve Minutes of the January 26, 2011 ECC Meeting

**It was moved by Mr. Mintz, seconded by Mr. Pieroni, and carried by those present to approve the minutes (Attachment #1). Mr. Shames abstained.**

- II. Update on Accounting Education Committee Activities

Ms. Pearce provided an oral report for this item. She reported the AEC is recommending a specified master's degree in taxation or accounting be accepted to meet the 20 units of accounting study. Further discussions will be held at the upcoming AEC meeting to determine if additional master degrees should also be accepted and whether a Master of Law (LL.M) degree should count towards meeting the 20 units of accounting study. For those individuals without a master's degree, the AEC is presently recommending that all units be completed at an upper division level, a minimum of six units be completed in accounting subjects, a maximum of 14 units be completed in business related subjects or other academic work relevant to accounting or business, and a maximum of four units be counted for internships for independent study. The committee is working on defining the definition of "other academic work relevant to accounting or business."

- III. Letters Received from Stakeholders Regarding the Composition of the 10 Units of Ethics Study Required for CPA Licensure Beginning January 1, 2014 and the Results of External Ethics Study Survey

Mr. Driftmier presented the memorandum for this item (**Attachment #2**). He reported that numerous letters were received from stakeholders with the letters all being the same general tenor, concern regarding the 10 units of ethics.

- IV. Report of the Subcommittee's February 22, 2011 Meeting and Proposal for the 10 Units of Ethics Study Required for CPA Licensure Beginning January 1, 2014

Mr. Yetman presented the memorandum for this item (**Attachment #3**). When considering this proposal, he stated the subcommittee took into account stakeholders, students, universities, the people of the State of California, the spirit of the law, and the practical application by the CBA. He provided an overview of the original idea of allowing embedded ethics and why the subcommittee selected

to abandon the idea specifically because of the CBA's reliance on certified course transcripts to confirm eligibility. The subcommittee considered how to document the option of an embedded ethics course in a way that would be consistent with institutions across the country. The subcommittee determined this was unfeasible, and therefore, to allow embedded ethics courses could not be an option.

Mr. McBride stated that the subcommittee believed its proposal met the spirit and intent of Senate Bill (SB) 819. The subcommittee proposed that three of the 10 units be in accounting ethics, accounting fraud, or accountants' professional responsibilities. He further stated that colleges would have until 2016 to develop a course(s) for this specific requirement.

Mr. Mintz stated he did not believe accounting fraud fell in the same category as accounting ethics. He stated that SB 819 called for the framework in ethical reasoning and that an accounting fraud course was generally more procedural in nature. He stated that an accounting fraud course would better be placed in the third category of the proposal. Mr. Ueltzen concurred.

Mr. McBride stated that the remaining seven units could be taken from one or both of the uncapped and capped categories. He reiterated that there could be no "double dipping" of courses. Courses taken in the capped category would be limited to three units in one discipline. Mr. Yetman stated the theory behind this limit was that students were more likely to take the introductory course for that discipline which would be more related to the foundations of ethical study. No limit was placed on the uncapped category as these courses were either related directly to ethics or established a business framework.

Mr. Shames suggested that the regulatory language for capped disciplines be modified to specify these courses be introductory courses. If introductory courses could not be identified, he had concerns with including Sociology, Psychology, and Religion in the capped disciplines.

Mr. Mikkelsen suggested placing a limit on the total units allowed for those disciplines listed under the capped category.

Mr. Yetman clarified there could be no double counting of courses but the subcommittee's proposal allows for one unit of an auditing course be applied to ethics to provide flexibility to those applicants earning education at a semester unit college/university.

Mr. McBride clarified the three units of accounting ethics must be an upper division or higher course, while the remaining seven units had no such requirement.

Mr. McBride suggested that the word "solely" be removed from the proposed regulatory language as it pertained to the required three units of accounting

ethics. He believed the word “solely” may be too restrictive. Mr. Mintz suggested using the language of the law that addresses ethical reasoning, professional values, and professional skepticism.

Discussions were held on whether regulatory language should state that the capped courses be taken at a lower division level. Mr. Franzella explained that most transcripts include a numeric numbering system which identifies upper and lower division courses on four-year institutions; however, this is not clearly identified on two-year institutions. Ms. Bowers clarified that presently the CBA does not identify courses by lower or upper division.

Mr. Ueltzen believed a business ethics course should be included in the accounting ethics requirement. He stated a business ethics course provides a general framework in how business is conducted in an ethical manner. Mr. Yetman stated that the subcommittee took into account the legislative intent of the law when designing this requirement.

Mr. Mintz stated that while some ethical reasoning would be included in a business ethics course often times less a third of the course would be consistent with what the law wants.

Mr. Mintz suggested that the wording framework of ethical reason, professional skepticism, and other behavior not be included in the regulatory language for the uncapped discipline language. He suggested this language be used for the accounting ethics regulatory language.

Mr. Mikkelsen suggested the language should be amended to read: Courses in the following subjects that provide applicants with a fundamental basis and framework of ethical reasoning and other foundations that are in the best interest of the investing and consuming public, and the profession.

Mr. Driftmier requested the subcommittee meet with CBA staff before the next ECC meeting to finalize the proposal and address the concerns shared by members.

Mr. Pieroni suggested that, in order to be consistent, the last sentence of the draft language which states “may not be claimed in conjunction with the 20 semester units of accounting study” be added to the other sections. Members also agreed that “subject” be changed to “discipline.”

## V. Future Agenda Items

Staff was requested to explore with stakeholders a hybrid accounting and business ethics course. Mr. Driftmier asked to have Matthew Stanley contact stakeholders to determine if they believe business ethics is within the intent of the legislation.

## VI. Public Comments

Mr. Davis stated that in conjunction with Ms. Ogilby and Ms. Farrell they were involved in a research study pertaining to the ethics study requirement and their findings were in tandem with the subcommittee's proposal. Ms. Ogilby stated California State University, Sacramento has an ethics and society business course but does not have an accounting ethics course. She believed a business ethics course should be included for the three units of accounting ethics. She had concerns about barriers that could exist for many students in the CSU system due to a specific accounting course.

Ms. Nondorf stated there was a sense of urgency in informing students of the defined requirements which is also impacting students who are already in the process of obtaining their degrees.

Ms. Freed stated she believed an accounting fraud and a business ethics course should be included with the required three units of accounting ethics. She requested the committee reconsider some of the disciplines as she had concerns how some of the disciplines related to the spirit of the law.

## ADJOURNMENT.

There being no further business to be conducted, the meeting was adjourned at 3:00 p.m. on Wednesday, April 6, 2011.

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Donald A. Driftmier, Chair

Prepared by Cindi Fuller, Licensing Coordinator

## Memorandum

ECC Agenda Item III.  
May 18, 2011

To : ECC Members

Date : May 5, 2011

Telephone : (916) 561-1700

Facsimile : (916) 263-3675

From : Gary McBride, ECC Member  
Robert Yetman, ECC Member

Subject : Report of the Subcommittee's April 14, 2011 Meeting and Proposal for the 10 Units of Ethics Study Required for CPA Licensure Beginning January 1, 2014

At the last Ethics Curriculum Committee (ECC) meeting on April 6, 2011, the subcommittee presented its proposal on the guidelines for the 10 units of ethics study required for CPA licensure beginning January 1, 2014. The proposal consisted of a three-part recommendation as follows:

- **Three semester or four quarter units in an upper division course or courses solely devoted to accounting ethics, accounting fraud, or accountants' professional responsibilities.**
- **No more than seven semester units in a combination of either Un-Capped or Capped courses.**
- **No more than one semester unit for courses devoted solely to financial statement auditing.**

As a whole, it appeared that most members agreed with the general framework of the proposal, with members and stakeholders providing valuable comments and feedback. The most significant comments focused on the mandated accounting ethics course and the Capped courses taken from the five specified disciplines. Based on the comments received from members and stakeholders, the subcommittee was asked to meet again with staff to further discuss the proposal.

The subcommittee and staff met on April 14, 2011. At the meeting the subcommittee took the opportunity to review all facets of the proposal. The subcommittee's second iteration of the proposal is provided in **Attachment #1**. For each part of the revised proposal (now divided into four parts), the subcommittee has summarized some of the discussions from the prior ECC meeting on a given part, and offered rationale for the proposed revisions.

## **Subcommittee Report and Proposal for the Ethics Study Guidelines**

### **Page 2 of 6**

#### **Mandated Accounting Ethics**

At the April 2011 meeting considerable discussion occurred regarding the recommendation of mandated accounting ethics. As noted previously, the subcommittee proposed requiring completion of four quarter units or three semester units in a course or courses solely devoted to accounting ethics, accounting fraud, or accountants' professional responsibilities. Additionally, the subcommittee proposed that this requirement for mandated accounting ethics begin January 1, 2016.

During deliberations members and various stakeholders discussed the following in relation to the mandated accounting ethics:

- Should courses in accounting fraud meet a mandated accounting ethics requirement?
- Expanding the requirement to include business ethics.
- The proposed phase-in date of January 1, 2016 and how the subcommittee came to selecting this date.

Some of members' concerns regarding allowing courses in accounting fraud to count toward mandated accounting ethics centered on the fact that often students' exposures in these classes focused on procedures in identifying fraud as opposed to ethics. When the subcommittee further studied these courses, it too came to the same conclusion that accounting fraud courses, more often than not, deal with providing students with information for detecting fraud and less about ethics.

The subcommittee proposed mandating specified units in accounting ethics as a way of ensuring applicants for CPA licensure receive dedicated exposure to ethical issues confronted by accountants in public practice. Although the ability to detect fraud is important, the subcommittee did not intend for procedural courses in detection of fraud to count toward these all-important mandated units. As such, as part of the revised proposal, the subcommittee removed courses in accounting fraud from meeting the mandated accounting ethics. However, any fraud courses, including those in accounting fraud, will continue to count toward the seven allowable units in the area of Un-Capped courses.

Considerable discussions also transpired on possibly including courses in business ethics to count toward the mandated accounting ethics requirement. Certain members and stakeholders noted business ethics courses provide a general framework on how business is conducted in an ethical manner. As noted by

## Subcommittee Report and Proposal for the Ethics Study Guidelines

### Page 3 of 6

members during the meeting, and duly noted during the subcommittee's recent review of these courses, many business ethics courses devote considerable time to non-business or accounting ethics topics, such as workplace violence and sexual harassment prevention.

The subcommittee strongly believes that the Legislature sent a message when passing Senate Bill (SB) 819 – aspiring California CPAs need increased *accounting ethics*. This is evidenced by how the Legislature defined what the minimum academic work for ethics study must include, “a foundation for ethical reasoning and the core values of integrity, objectivity, and independence consistent with ... the International Federation of Accountants Code of Ethics, and the American Institute of Certified Public Accountants Code of Professional Conduct.” This definition places a heavy emphasis on standards of the accounting profession and not the business community at large. As such, the subcommittee's revised proposal does not include allowing business ethics courses to fulfill the mandated accounting ethics requirement.

That said, the ECC decided when evaluating the initial subcommittee proposal to remove the word “solely” from the requirement since this appeared overly restrictive. Colleges/universities may offer high-quality courses devoted to accounting ethics, while also covering other important topics, *i.e.* regulations or business ethics. To that end, with the removal of the word “solely,” colleges/universities could offer a hybrid course on accounting and business ethics and still meet the requirement.

Finally, as part of the mandated accounting ethics area of the initial proposal, members inquired how the subcommittee came to the initial phase-in date of January 1, 2016 to require applicants to demonstrate completion of the mandated accounting ethics requirement. When the subcommittee initially discussed the possible phase in of this requirement, it recognized that colleges/universities may not offer courses devoted to accounting ethics. To minimize the impact on students at these institutions, the subcommittee believed that two years represented a reasonable amount of time to develop the course for students to complete.

Upon further examination and understanding of the timeframes of when the guidelines for the 10 units of ethics study will become effective, the subcommittee recommends as part of the revised proposal that the original date of January 1, 2016 be pushed back a year to January 1, 2017. According to staff, based on the present timeline for the rulemaking activities to define the 10 units of ethics study, in all likelihood, the regulations will be approved around the first of the year in 2013. With this date in mind, the subcommittee believes schools will have sufficient time to develop a course, obtain all required college/university approval, hire staff, and

## **Subcommittee Report and Proposal for the Ethics Study Guidelines**

### **Page 4 of 6**

offer courses in accounting ethics so that applicants may complete them by January 1, 2017.

#### **Un-Capped Courses**

This area of the proposal did not, to the subcommittee's recollection (or staff), receive any questions for the subcommittee to further clarify or review. However, when the subcommittee reconvened, it did take the opportunity to look at the list of courses identified under the Un-Capped area. During its deliberations the subcommittee decided to add one additional course to the previously-provided list – Legal Environment of Business.

This course title is often synonymous with the course title Business Law, and colleges/universities use this course title rather than the more common course title Business Law. Since this area of the proposed ethics study relies on course titles, and CBA staff will use course titles to apply credit for completion of the applicable units, the subcommittee desired to ensure this course would clearly qualify.

#### **Capped Courses**

Along with the discussion on the mandated accounting ethics, the other area of the proposal that received considerable discussion was the Capped courses. As members will recall, the initial proposal allowed for applicants to complete courses in various disciplines (Philosophy; Religion; Ethnic, Cultural, and Diversity Studies; Sociology; and Psychology) to count for up to seven semester units in ethics study, with no more than three semester units to apply from any one discipline. In considering this area of the proposal, the subcommittee believed given that only three-semester units from one discipline could be applied, applicants would receive credit for the introductory course that lays the foundation for the general objective, goals, and principles these disciplines seek to instill in students.

It was duly noted by members that neither the proposal, nor the language that the subcommittee requested staff prepare, made mention that courses completed in the identified disciplines be an introductory course. As such, when the subcommittee further considered this area, it set about to determine how best to qualify this area so as to more closely align it with the subcommittee's intent.

To that end, as noted in the revised proposal, the subcommittee recommends that the courses taken in these disciplines contain one of the below words or terms in

## **Subcommittee Report and Proposal for the Ethics Study Guidelines**

### **Page 5 of 6**

the course title or that the sole name in the course title is the name of the discipline (e.g. SOC 101 – Sociology).

- Introductory
- Introduction
- Principles
- Survey of
- General
- Fundamentals of
- Foundation of

The second issue brought up during discussions on this area of the proposal dealt with the breadth of disciplines recommended by the subcommittee. As noted previously, the disciplines include Philosophy; Religion; Sociology; Ethnic, Cultural, and Diversity Studies; and Psychology.

Some members and various stakeholders believed that the previously-provided list may be too broad – especially as it related to Religion, Sociology, and Psychology. The subcommittee continues to believe that these, along with the other disciplines, do offer students a broad framework for developing ethical reasoning. At their core, these disciplines focus on human nature and motivations, and these underlying concepts will only help to further serve accounting professionals. As such, the subcommittee continues to recommend all of the previously specified disciplines as part of its revised proposal.

Additionally, the subcommittee, as part of its revised proposal, added three disciplines to the original five – Theology, Economics, and Political Science. The subcommittee's rationale for including Theology is simply as an accompaniment to Religion. These two terms for the same field of study are often interchangeable, and thus the subcommittee believed it only further strengthened the proposal.

The subcommittee believes Economics – especially Introductory or Microeconomics – deals with how individuals make economic decisions. Since the bulk of accounting fraud and irregularities involve individuals seeking to achieve economic gains, it is important to understand how economic incentives can influence individual decisions. With Political Science, the subcommittee believes introductory Political Science courses provide a broad framework and foundation for ethical reasoning with respect to the relationship of good governance to business, institutions, and society at large.

### **Financial Statement Auditing Courses**

To the subcommittee's knowledge, it did not receive comment or feedback regarding the specifics for this proposal. Discussion did occur when deliberating

## Subcommittee Report and Proposal for the Ethics Study Guidelines

### Page 6 of 6

the mandated accounting ethics area of the proposal to remove courses in accounting fraud and expand this area to include those courses. However, when removing accounting fraud courses from the mandated accounting ethics requirement, the course easily fell under the Un-Capped area since it has the word “fraud” in the course title.

The subcommittee believes the proposal put forth in **Attachment #1** meets the Legislature’s intent related to ethics study for future CPAs when passing SB 819. It also believes the proposal hits on two important points:

1. Providing the needed flexibility to applicants and colleges/universities for allowing applicants to meet the 10 units of ethics study
2. Providing clear direction to applicants regarding the requirements and feasible recommendations that the CBA can implement.

To illustrate this point, the subcommittee requested that staff supply some initial examples of how applicants can use the present proposal to fulfill the 10 units of ethics study (**Attachment #2**). As supported by **Attachment #2**<sup>1</sup>, applicants can complete the 10 units with an Accounting Ethics Emphasis (All Accounting courses); Accounting and Business Ethics Emphasis (All Un-capped courses); Accounting, Business, and General Ethics Emphasis (Combination of Un-Capped and Capped courses); or Accounting and General Ethics Emphasis (All Capped courses).

As members are aware this is the last ECC meeting prior to the joint ECC/Accounting Education Committee meeting being held June 7, 2011. At the stakeholder meeting the CBA intends on providing the proposal of each committee where comments/feedback on the proposal will be solicited. In order to provide a finalized proposal for staff to include as part of this meeting, the subcommittee requests that members take formal action to vote on the proposal, including any necessary amendments, for the full 10 units of ethics study provided in **Attachment #1**. Staff have again provided an example of the resulting draft regulatory language in **Attachment #3**.

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<sup>1</sup> **Attachment #2** is being provided for informational purposes only. The exercise undertaken by staff looks solely at the present proposal and does not take into consideration any variances that this committee may make at the upcoming May 2011 meeting.



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**ATTACHMENT #1**

**ECC SUBCOMMITTEE  
 PROPOSAL FOR THE ETHICS STUDY GUIDELINES**

**RECOMMENDATION #1 – MANDATED ACCOUNTING ETHICS**

- Require applicants complete a minimum of four quarter units or three semester units in an upper division or higher course or courses devoted to accounting ethics or accountants' professional responsibilities.
- Applicants must meet this requirement beginning January 1, 2017. Until that time applicants can meet this requirement using any Un-Capped Courses.

**RECOMMENDATION #2 – UN-CAPPED COURSES**

- Applicants can receive credit for up to seven semester units from the following courses:

Business Law	Corporate Governance
Ethics, Morals, or Fraud	Organizational Behavior
Human Resources Management	Management of Organizations
Business Government & Society	Business Leadership
Legal Environment and Business	Professional Responsibilities (non-Accounting)

**RECOMMENDATION #3 – CAPPED COURSES**

- Applicants can receive credit for up to seven semester units from courses taken in the following disciplines:

Philosophy	Cultural, Ethnic, or Diversity Studies
Sociology	Religion
Psychology	Theology
Economics	Political Science

- No more than three semester units may be applied from any one discipline.
- The course title must contain one of the below words or terms, or the sole name in the course title is the name of the discipline.

Introductory	General
Introduction	Fundamentals of
Principles of	Foundation of
Survey of	

**RECOMMENDATION #4 – FINANCIAL STATEMENT AUDITING COURSE**

- Applicants can receive credit of one semester unit for a course devoted solely to financial statement auditing.



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**Attachment #2**

**EXAMPLES OF COURSE COMBINATIONS THAT SATISFY  
 THE PROPOSED ETHICS STUDY GUIDELINES**

The following examples of current course combinations satisfy the three semester unit or four quarter unit accounting ethics requirement, which is not mandatory until January 1, 2017.

**EXAMPLE #1 – ACCOUNTING ETHICS EMPHASIS  
 (ALL ACCOUNTING COURSES)**

EXAMPLE – UNIVERSITY OF SAN DIEGO (SEMESTER UNIT INSTITUTION)

COURSE DESIGNATOR	COURSE TITLE	UNITS
MACC 501*	Communications and Ethics for Professionals	3
MACC 503*	Negotiations: Strategies, Practice, and Ethics	3
MACC 532*	Fraud Examination and Forensic Accounting	3
ACCT 408	Auditing	3/1^

**EXAMPLE #2 – ACCOUNTING AND BUSINESS ETHICS EMPHASIS  
 (ALL UNCAPPED COURSES)**

EXAMPLE – UNIVERSITY OF PHOENIX (SEMESTER UNIT INSTITUTION)

COURSE DESIGNATOR	COURSE TITLE	UNITS
ACCT 375	Accounting Ethics and Professional Relations	3
MGT 216	Organizational Ethics and Social Responsibilities	3
HRM 300	Introduction to Human Resource Management	3
ACC 490	Auditing	3/1^

\* Indicates courses at a master's degree level.

^ Indicates only one semester unit used to qualify for the ethics study requirement.

**EXAMPLE #3 – ACCOUNTING, BUSINESS, AND GENERAL ETHICS  
(COMBINATION OF UNCAPPED AND CAPPED COURSES)**

EXAMPLE – CALIFORNIA STATE UNIVERSITY, EAST BAY (QUARTER UNIT INSTITUTION)

COURSE DESIGNATOR	COURSE TITLE	UNITS
ACCT 4911	Ethics, Regulation and Financial Fraud	4
ACCT 2701	Legal Environment and Business	4
MGMT 3610	Human Resources Management	4
ES 1001	Introduction to Ethnic Studies	4

**EXAMPLE #4 – ACCOUNTING AND GENERAL ETHICS EMPHASIS  
(ALL CAPPED COURSES)**

EXAMPLE – CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO (QUARTER UNIT INSTITUTION)  
COLLEGE OF THE DESERT (SEMESTER UNIT INSTITUTION)

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

COURSE DESIGNATOR	COURSE TITLE	UNITS
ACCT 444	Accounting Law, Ethics and Institutions	4
PSYC 100	Introduction to Psychology	4

COLLEGE OF THE DESERT

COURSE DESIGNATOR	COURSE TITLE	UNITS
SOC 3	Fundamentals of Sociology	3
PHIL 6	Introduction to Philosophy	3

\* Indicates courses at a master's degree level.

^ Indicates only one semester unit used to qualify for the ethics study requirement.



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**Attachment #3**

**DRAFT REGULATORY LANGUAGE  
FOR THE 10 UNITS OF ETHICS STUDY**

**Section \_\_\_ Education Required Under Business and Professions Code Section 5093 to Apply for Certified Public Accountant License. (Effective January 1, 2014)**

(a) An applicant applying for CPA licensure after December 31, 2013, in addition to meeting the 24 semester units of accounting described in Section 9.2(b) and the 24 semester units of business-related subjects described in Section 9.2(c), shall, to the satisfaction of the Board, provide documentation to the completion of an additional 20 semester units of accounting study as described in Section \_\_\_ and 10 semester units of ethics study as described in Section \_\_\_.

(b) Satisfactory evidence as to educational qualifications shall take the form of certified transcripts of the applicant's college record, mailed directly to the Board from the educational institution; however, in unusual circumstances the Board may accept such other evidence as it deems appropriate and reasonably conclusive. For foreign education, in addition to certified transcripts of the applicant's college record, satisfactory evidence usually takes the form of an evaluation of educational credentials by a credentials evaluation service approved by the Board pursuant to Section 9.1.

(c) For purposes of Section \_\_\_, \_\_\_, and \_\_\_, one quarter unit is equivalent to two-thirds of one semester unit.

**Section \_\_\_ Ethics Study Required Under Business and Professions Code Section 5094. (Effective January 1, 2014)**

(a) In order for an applicant to satisfy the 10 semester units of ethics study, he/she must meet the requirements described below.

(b) Completion of a minimum of three semester units or four quarter units in a course or courses at an upper division level or higher devoted to accounting ethics or accountants' professional responsibilities.

(1) Subsection (b) must be met beginning January 1, 2017. Until that time, applicants can meet subsection (b) by completing courses in subsection (c)(1).

(c) The remaining semester units may be completed in any of the courses in subsection (c)(1) or disciplines in subsection (c)(2).

(1) Courses in the following: business law; legal environment of business; corporate governance; ethics, morals, or fraud; organizational behavior; human resources management; management of organizations; business, government and society; business leadership; and non-accounting courses specific to professional responsibilities.

(2) Courses in the following disciplines: Philosophy; Religion; Theology; Sociology; Psychology; Cultural, Ethnic, or Diversity Studies; Economics; and Political Science. Courses in these disciplines must include the following words or term in the course title or the sole name in the course title is the name of the discipline: Introduction, Introductory, General, Fundamentals of, Principles, Foundation of, or Survey of. No more than three semester units can be applied from one single discipline, except those courses expressly identified in subsection (c)(1).

(3) Applicants may obtain credit for a maximum of one semester unit of ethics study for completion of a course specific to financial statement audits.

## Memorandum

ECC Agenda Item IV.  
May 18, 2011

To : ECC Members

Date : May 4, 2011

Telephone : (916) 561-1740

Facsimile : (916) 263-3672

E-mail : dpearce@cba.ca.gov

From : Deanne Pearce, Chief  
Licensing Division

Subject : Update on Joint ECC/Accounting Education Committee Meeting

Members were recently informed that the California Board of Accountancy (CBA) had begun plans to hold a joint meeting of the ECC and Accounting Education Committee (AEC). The meeting will allow all stakeholders to see both committees' proposals and staff's initial plans regarding implementation and outreach.

On April 21, 2011, Executive Officer Patti Bowers circulated, via e-mail, a memorandum (**Attachment**) from CBA President Sally Anderson, CPA, regarding the proposed joint meeting. The memorandum informed both committees that the CBA had set the meeting date for June 7, 2011, and requested that members inform staff whether they will attend. Based on the responses received, both committees have established quorums.

The CBA is still in the early planning stages of this meeting. As additional information becomes available, staff will provide it to members.

## Memorandum

Attachment

To : AEC Members  
ECC Members

Date : April 21, 2011

Telephone : (916) 561-1700  
Facsimile : (916) 263-3675

From : Sally Anderson, CPA, President  
California Board of Accountancy

Subject : Joint Meeting of the Accounting Education Committee and Ethics Curriculum Committee

I would like to begin by thanking each of you for your continued dedication to the consumers of the great State of California. I recognize the considerable effort and time commitment each of you has put forth over these past several months in developing the new educational requirements that will take effect for CPA licensure beginning January 1, 2014.

As members of both committees are undoubtedly aware, your work will vastly change the prerequisites for obtaining a CPA license in the State of California. California will now have some of the most, if not the most, rigorous educational requirements needed to begin the practice of public accountancy, especially when it comes to ethics education.

Given the transformative nature of these forthcoming changes, the CBA is planning to hold a joint meeting of both AEC and ECC. The meeting will allow students, colleges/universities, consumer groups, various professional trade associations, and the public at large to receive information on the CBA's plans for implementing the new educational requirements, including plans for future outreach, as well as provide a dedicated forum for these groups to hear the proposal and provide comments.

The CBA is in the early planning stages for the meeting, but has set a tentative date of **Tuesday, June 7, 2011** on the calendar. It is anticipated that the meeting will be webcast, with possible remote locations being established, to allow for maximum exposure and participation by stakeholders. You will receive more information on the meeting as soon as details are developed.

The CBA looks forward to your participation in this crucial meeting, and thanks you for your continued service on these important CBA committees. Please let staff know as soon as possible if you are available for the **June 7, 2011** meeting.

To confirm attendance or if you have any questions, please contact either Jenny Sheldon or Cindi Fuller at the contact information below.

Jenny Sheldon – e-mail: [jshelodon@cba.ca.gov](mailto:jshelodon@cba.ca.gov), telephone: (916) 561-4339  
Cindi Fuller – e-mail: [cfuller@cba.ca.gov](mailto:cfuller@cba.ca.gov), telephone: (916) 561-4367

## Memorandum

ECC Agenda Item V.  
May 18, 2011

To : ECC Members

Date : May 5, 2011

Telephone : (916) 561-4310

Facsimile : (916) 263-3672

E-mail : dfranzella@cba.ca.gov

From : Dominic Franzella, Manager  
Licensing Division

Subject : ECC Timeline and Future Agenda Items

As staff reported at the ECC's inaugural meeting in September 2010, Senate Bill (SB) 819 requires the ECC to provide the California Board of Accountancy (CBA) with guidelines for the 10 units of ethics study by June 1, 2012. Provided the ECC adopts guidelines at this meeting, the ECC will provide the guidelines to the CBA at the July 2011 CBA meeting. Thus, the ECC will have completed its work on providing the ethics study guidelines to the CBA almost a full year before the deadline in SB 819.

Although the guidelines for the 10 units of ethics study represent the most time consuming and important activity undertaken by the ECC, SB 819 requires the ECC to complete two additional activities. This memorandum is being provided to overview those remaining activities.

SB 819 requires the ECC to issue a report during the public comment period. Although SB 819 does not specifically state to whom the report should go, the content of the report, or what form the report should take, given the timing of the report (during the public comment period), staff interpret this requirement to mean that the ECC must issue a public comment in the form of a letter to the CBA regarding whether the proposed regulations met the ECC-provided ethics study guidelines.

As previously mentioned, staff anticipate that the ECC will provide the CBA with the ethics study guidelines at the CBA's July 2011 meeting. SB 819 requires the CBA to adopt the ECC's guidelines via regulations without making any substantive changes. Therefore, the CBA may opine on the guidelines, but the ECC has final say on whether any changes should be made.

Provided the ECC elects not to make any modifications after the July 2011 CBA meeting, the CBA will undertake the rulemaking activities associated with adopting the ethics study guidelines via regulation. At this time, staff expect the public comment period for the rulemaking to take place between September 30 and

## **ECC Timeline and Future Agenda Items**

### **Page 2 of 3**

November 14, 2011. Therefore, the ECC will need to convene during this 45-day period to review and approve a proposed letter.

The final item that will require the ECC to meet relates to SB 819's requirement that the ECC issue a report no later than 30 days after the regulations are final. Although SB 819 provides what the report must include – an opinion as to whether the regulations will implement the ECC's ethics study guidelines – it does not define to whom the ECC shall issue the report, nor what the term "after the regulations are final" means.

For this requirement, staff have come to interpret that the ECC should issue its report to the Legislature, and that the term "after the regulations are final" to mean when the regulations are included in the California Code of Regulations (CCR). Regulations become codified in the CCR 30 days after the Office of Administrative Law (OAL) files the approved regulations with the Secretary of State. Staff, generally, cannot accurately predict when the OAL will provide approval on rulemaking files; however, staff can provide some parameters of when the latest this could occur.

The Administrative Procedure Act requires all agencies to provide public notice for any proposed rulemaking activities. This is achieved by having notice of the proposed actions posted in OAL's *California Regulatory Notice Register*. Once the notice is published, a one-year clock starts during which the rulemaking activities must be finalized, which culminate in submission of a completed rulemaking file to the OAL. Staff anticipate that the notice of proposed rulemaking activities will run in the September 30, 2011 issue. As such, the CBA will have until September 29, 2012 to submit a final rulemaking file to OAL. OAL will have a maximum of 30-working days to approve or disapprove the rulemaking file.

If the OAL took the entire allotted time to render a decision on the rulemaking file, the CBA would receive the OAL's decision no later than November 9, 2012. Presuming the rulemaking file is approved, the Secretary of State will codify the regulations in the CCR on December 10, 2012. Using this date, the committee would have until January 10, 2013 to issue a report to the Legislature. Again, the January 10, 2013 date represents the latest date this could occur. It is entirely possible that the CBA could complete the process sooner, which would move up the due date for the final report to the Legislature.

With this information in mind, staff anticipate the ECC will need to convene for two additional meetings after the upcoming June 7, 2011 joint Accounting Education Committee and ECC meeting. (See **ECC Agenda Item IV.**) The first meeting

## **ECC Timeline and Future Agenda Items**

### **Page 3 of 3**

would be to approve the letter that the ECC must issue during the public comment period, with the second meeting to approve the report to the Legislature.

The ECC will need to discuss the logistics for developing the letter and report, as well as holding the meetings to approve the documents. Members could defer to the ECC Chair to work with staff in developing the letter and report, or continue use of the subcommittee. As for conducting the meetings, given that minutes from a previous meeting and either a letter or report will likely be the only topics on the agenda, the ECC may choose to simply have a teleconference meeting.

Staff will be available at the meeting to answer questions.