Attachment 4

Minutes of the September 2010 AEC Meeting

CALIFORNIA BOARD OF ACCOUNTANCY

DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
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DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY

MINUTES OF THE
September 3, 2010
ACCOUNTING EDUCATION COMMITTEE (AEC) MEETING

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815
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ROLL CALL AND CALL TO ORDER.

Acting Chair Donald Driftmier, called the meeting of the AEC to order at 10:20 a.m. on Friday, September 3, 2010 at the California Board of Accountancy (CBA) office. 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.

AEC Members	
Ruben Davila, Chair	Not Present
Donald Driftmier, CBA Member	10:20 a.m. to 11:42 p.m.
Sherry Anderson	10:20 a.m. to 11:42 p.m.
Betty Chavis	10:20 a.m. to 11:42 p.m.
Thomas Dalton	10:20 a.m. to 11:42 p.m.
Michael Moore	10:20 a.m. to 11:42 p.m.
Gary Pieroni	Not Present
Sara Seyedin	Not Present
Xiaoli “Charlie” Yuan	Not Present

Staff and Legal Counsel	Other Participants
Rich Andres, Information Technology Staff	Allyson Hill, KPMG LLP
Patti Bowers, Executive Officer	Ed Howard, CPIL
Cindi Fuller, Licensing Coordinator	Molly Isbell, KP Public Affairs
Dominic Franzella, Manager, Licensing	Pilar Oñate-Quintana, KP Public Affairs
Deanne Pearce, Chief, Licensing Division	Hal Schultz, CalCPA
Jenny Sheldon, Licensing Coordinator	Jeannie Tindel, CalCPA
Matthew Stanley, Legislation/Regulation Analyst	

II. Approve Minutes of the June 23, 2010 AEC Meeting.

It was moved by Mr. Moore, seconded by Ms. Chavis, and unanimously carried by those present to approve the minutes (Attachment #1).

III. Information on the Acceptance of Units Earned at University or College Extension Programs.

Ms. Pearce provided an oral report for this item. Ms. Pearce stated that staff are working on this item with legal counsel and will report back once more information becomes available.

IV. Consideration of Draft Regulatory Language for the 20 Units of Accounting Study.

Mr. Franzella presented the memorandum for this agenda item (**Attachment #2**). Mr. Franzella reported that at the June 23, 2010 AEC meeting, members came to a general consensus for a broad framework for the 20 units of accounting study. This framework required the 20 units to be completed at the upper division level or higher, a minimum of six units to be completed in accounting subjects as presently defined in CBA Regulations, a maximum of 14 units to be completed in business-related subjects as presently defined in CBA Regulations or other academic work relevant to accounting and business, and no more than four units to be completed in internships or independent study.

The framework also included a recommendation that completion of a Master's Degree in accounting or taxation should be deemed to fulfill the education requirements. Mr. Franzella reported that staff was advised by legal counsel this recommendation over stepped the statutory authority. Mr. Franzella noted the AEC could still make this recommendation to the CBA, but it would require a statutory change.

Mr. Franzella presented draft regulatory language based on the framework and definitions provided by the AEC and identified issues for consideration to the AEC with the broad subject areas presently proposed in the definition of other academic coursework relevant to accounting and business.

Members discussed the draft language and came to a consensus that creating a subcommittee of two members to meet with CBA staff to refine the draft regulatory language would be beneficial. The subcommittee will be comprised of Mr. Davila and Mr. Moore.

Mr. Howard provided extensive comments regarding his belief that the draft regulatory language is unlawful and potentially overly burdensome to students. Mr. Howard outlined three specific items of contention with the present draft – it allows courses that have no relationship to accounting or accounting practice; requires courses be completed at the upper division level or higher which would

be overly burdensome to economically disadvantaged students; and requires applicants to prove that a particular course relates to enhancing his or her skills as a CPA thereby placing applicants in an unfair position.

Mr. Howard made three suggestions – require the 20 units of accounting study be completed in business-related subjects as presently defined in CBA Regulations; describe in words the kind of skills that a CPA student should obtain from a course to limit over-inclusiveness; or isolate department-like words that are less obviously related to accounting and refine them with skills-emphasizing language.

Additionally, Mr. Howard expressed concern with staff counsel's opinion that the statute is insufficiently flexible to permit a Master's Degree in accounting or taxation to qualify as meeting the 20 units of accounting study. A full account of Mr. Howard's comments can be found in **Attachment #3**.

Mr. Driftmier stated that the idea of relevance is key because relevance will differ between types of practice and also the size of a firm. Mr. Moore indicated a need to strike a balance between the knowledge and skill set required for licensing and additional skills specific to types of industry such as biology and medicine.

Mr. Schultz referenced the August 4, 2010 public comment letter from the California Society of Certified Public Accountants (CalCPA) expressing agreement that 20 units of accounting study should be completed at the upper division level or higher. Mr. Schultz also expressed his belief that many upper division classes have lower division pre-requisites and that, in certain cases, the lower division class may deal more specifically with the kind of understandings that would be useful to a CPA candidate and that upper division classes may be more narrowly focused than what is necessary.

Mr. Schultz further stated that there are three E's for licensing – practical experience, the CPA exam, and a university education. The purpose of the exam is to measure the candidate's knowledge of what would be required to perform the tasks likely to be encountered in the first two years in the practice of public accounting. The reason for a college education is to create a person who is prepared for life-long learning and provide tools to be able to respond to those challenges. Therefore, education should be something much broader than what is tested by the CPA exam. If both education and the CPA exam are designed to prepare the entry-level person then the work is duplicative. Mr. Schultz stated that he is very in favor of allowing an appropriate masters degree to qualify for meeting the 20 units of accounting study for licensure and also expressed hope that the course requirements will reach beyond just business courses and add more flexibility.

Mr. Dalton stated that he is in favor of keeping the subject areas listed in the draft regulatory language under other academic work relevant to accounting and business but is not opposed to placing a unit limitation of specific subjects. Ms. Chavis stated that she is mostly opposed to placing limits on the number of units that can be completed in each of the identified subject areas.

V. Discussion Regarding the Impact on Applicants Completing Education at Universities or Colleges Outside California.

Ms. Sheldon presented the memorandum for this agenda item (**Attachment #4**). Ms. Sheldon reported that the new 20 units of accounting study would impact applicants for an initial CPA license and applicants who have been licensed in another state for less than four years. She noted staff identified 22 states in which applicants are likely to meet the education requirements for licensure in California by fulfilling the education requirements for licensure in the state where the applicant completed the education. For the remaining states, staff will provide outreach to make them aware of the upcoming education changes for California in the hope that the information will be shared with students.

VI. Discussion on Plan to Circulate Proposed Regulatory Language for the 20 Units of Accounting Study to Affected Stakeholders for Possible Input.

Ms. Pearce presented the memorandum for this agenda item (**Attachment #5**). This agenda item was prepared in response to members' request to circulate draft regulatory language to stakeholders prior to making a formal recommendation to the CBA. Ms. Pearce presented staff's recommendation that the draft language with a cover letter be sent to the CBA's interested parties list, including California colleges and universities, and a sampling of colleges and universities from neighboring states and those states with substantially different education requirements.

VII. Future Agenda Items and Meeting Dates.

Staff reminded members that CBA staff are unable to meet the second, third, and fourth Friday of each month. Ms. Bowers asked that members keep the first Friday of each month open for future meeting dates.

VIII. Public Comments

The CBA received a written comment on behalf of the AEC from CalCPA (**Attachment #8**).

No further public comments were received.

ADJOURNMENT.

There being no further business to be conducted, the meeting was adjourned at 11:42 a.m. on Friday, September 3, 2010.

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Ruben Davila, Chair

Prepared by Jenny Sheldon, Licensing Coordinator.

STATE OF CALIFORNIA - STATE AND CONSUMER SERVICES AGENCY ARNOLD SCHWARZENEGGER, Governor

CALIFORNIA BOARD OF ACCOUNTANCY

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DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY

AEC Agenda Item II.
September 3, 2010

Draft **Draft**

MINUTES OF THE June 23, 2010 ACCOUNTING EDUCATION COMMITTEE (AEC) MEETING

University of Southern California Orange County Center
2300 Michelson Drive, Classroom C
Irvine, California 92612
Telephone: (949) 437-0000

ROLL CALL AND CALL TO ORDER.

Ruben Davila, Chair, called the meeting of the AEC to order at 10:16 a.m. on Wednesday, June 23, 2010 at the University of Southern California Orange County Center. Mr. Davila 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 California Board of Accountancy (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.

AEC Members	
Ruben Davila, Chair	10:16 a.m. to 3:44 p.m.
Donald Driftmier, CBA Member	10:16 a.m. to 3:44 p.m.
Sherry Anderson	Not Present
Betty Chavis	10:16 a.m. to 3:44 p.m.
Thomas Dalton	10:16 a.m. to 3:44 p.m.
Michael Moore	10:16 a.m. to 3:44 p.m.
Gary Pieroni	10:41 a.m. to 3:44 p.m.
Sara Seyedin	10:16 a.m. to 3:44 p.m.
Xiaoli “Charlie” Yuan	10:16 a.m. to 3:44 p.m.

Staff
Rich Andres, Information Technology Staff
Deanne Pearce, Chief, Licensing Division
Dominic Franzella, Manager, Licensing
Jenny Sheldon, Licensing Coordinator

Other Participants
Sally Anderson, CPA, CBA Vice President
Chrislynn Freed, USC
Jon Ross, KPMG, PWC, E&Y, GT, Deloitte
Hal Schultz, CalCPA
Jeannie Tindel, CalCPA

II. Approve Minutes of the April 8, 2010 AEC Meeting.

It was moved by Mr. Driftmier, seconded by Mr. Moore, and unanimously carried by those present to approve the minutes (Attachment #1).

III. Informational Memorandum of SB 819's Impact on Mobility.

Mr. Franzella presented the memorandum (**Attachment #2**) for this item.

Mr. Davila made reference to the fact that the California Research Bureau has begun research regarding the 150-hour education requirement and its effect on mobility. He also indicated that the issue of mobility is something members will need to look at down the line.

Mr. Moore commented that he is concerned with satisfying the legislative intent and would applicants from out-of-state be allowed to obtain licensure in California without having to meet the specific education requirements established for the "hollow hours."

Mr. Dalton indicated he is concerned that if members make the education requirements overly burdensome it will create a market for students to obtain their education out-of-state and then come back to California to obtain licensure. Ms. Chavis stated she does not want to lose sight of the fact that members have a unique opportunity to set up a first-class program for the accounting profession.

Staff clarified that applicants who obtain education out-of-state must meet California's education requirement, including the additional 20 units of accounting study that the AEC is working to define, in order to be eligible for licensure.

Members discussed the need for outreach to students regarding the licensure requirements for their desired state of licensure.

Mr. Dalton stated that he is not concerned with the competency of students who have completed a master's degree or bachelor's degree in accounting but rather with students who obtain a degree in another subject area and then obtain a random additional 30 units with no thought by a faculty or any group as to the order or proper foundation of the courses. Mr. Dalton opined that those are the individuals that the Legislature and Center for Public Interest Law want members to take a look at in substitute for vetting by faculty.

Mr. Davila indicated that the discussions are moving ahead of the Agenda and need to move on to the next agenda item prior to going further into the discussion.

IV. Finalization of AEC Purpose Statement.

Ms. Pearce presented the memorandum (**Attachment #3**) for this item and asked for additional comments, edits, or suggestions from members. Mr. Driftmier made a move to accept, which was not seconded. Mr. Davila recommended adding language to take in the needs, requirements, and constraints of the stakeholders involved.

Mr. Davila asked for the purpose statement to be re-worded by staff for consideration later in the meeting.

Discussion on this item resumed under Agenda Item VII.

V. Resource Information on Other States' Education Requirements.

Ms. Sheldon presented a memorandum (**Attachment #4**) for this agenda item outlining the education requirements for licensure in other states. Mr. Davila presented a supplemental memorandum (**Attachment #5**), which included a sample definition for the term "other academic work relevant to accounting and business" along with a chart designed to aid the members in allocating the 20 units of accounting study.

VI. Consideration on Defining Terms and Establishing a Framework for the 20 Units of Accounting Study.

Mr. Davila began the discussion on this agenda item (**Attachment #6**).

Ms. Sally Anderson thanked members for taking the time to serve on the committee. Ms. Anderson inquired as to whether members could consider allowing individuals with a law degree or a master's degree in disciplines such as taxation, finance, and accounting be allowed to become licensed without completing the additional 20 units of accounting study. Ms. Anderson indicated that in her experience firms do not usually hire people thinking they will need time to go back and obtain additional education prior to being eligible to apply for licensure.

Members discussed which subject areas should qualify as other academic work relevant to accounting and business. Members were in agreement that the subject areas should be as inclusive as possible to avoid creating barriers to entry for applicants with non-accounting majors.

Ms. Tindel commented that for years the Legislature had resisted allowing an increase in education because it did not want to negatively impact economically disadvantaged students and wanted the profession to remain broad and inclusive so that people could come into the profession from alternative routes. Ms. Tindel stated that she would like the committee to pursue a broad, inclusive approach to

allocating the units and that a possible idea would be to identify which subject areas will not be allowed rather than those that will be allowed.

Members discussed the level at which course work should be completed. Members were in agreement that the 20 units of accounting study should be completed at the upper division or higher level in order to ensure the rigor of the coursework.

Members discussed defining the term independent study and setting a unit limitation on independent study and internships. Mr. Dalton and Ms. Seyedin both recommended leaving the requirements for an independent study program to the discretion of the schools. Ms. Seyedin also stated that independent study and internships should be limited to accounting and business-related subjects.

Mr. Moore expressed concern over accepting course work from extension programs where there may be less oversight especially over the independent study programs. Members discussed the differences between on-line courses and independent study. Mr. Driftmier reminded members that the CBA already accepts course work and degrees from on-line, degree-granting universities and cautioned against trying to limit a format that is already determined to be acceptable for licensure.

Mr. Dalton commented that independent study and internships should be combined for purposes of defining acceptable subject areas and setting a unit limitation.

Discussion on this item resumed under Agenda Item VII.

VII. Future Meeting Dates.

Ms. Pearce began the discussion on this agenda item (**Attachment #7**). Members agreed to move the proposed July meeting to August to allow staff adequate time to develop draft regulatory language for presentation at the next AEC meeting.

At this time, AEC members resumed discussion of Agenda Item IV.

The new proposed statement was “To advise the CBA on accounting study requirements to enhance consumer protection through strengthening the competence of students as practitioners while considering the constraints and needs of stakeholders.”

It was moved by Mr. Driftmier, seconded by Ms. Seyedin, and unanimously carried by those present to approve the purpose statement.

At this time, AEC members resumed discussion of Agenda Item VI.

Members tentatively agreed that applicants should be limited to a maximum four units of independent study or internships in any of the approved subject areas.

Mr. Davila brought the discussion back to Mr. Moore's previous comment regarding extension programs. Members discussed the issue of whether courses completed through a college or university extension program are accredited and acceptable for licensure. Staff indicated that it would look into the matter and consult with legal counsel.

Mr. Davila moved the discussion to the allocation of the 20 units of accounting study and members discussed various combinations of units including master's degree programs.

Ms. Freed questioned whether accepting a master's degree in accounting would include master's degree in business taxation. Mr. Davila responded in the affirmative.

Members came to a tentative agreement that holders of a masters' degree in accounting or business taxation should be deemed to have met the 20 units of accounting study. Members also tentatively agreed that the 20 units should be comprised of a minimum of six units in accounting subjects and that no more than a total of four units can be completed via internship or independent study programs.

Staff indicated that it would consult with legal counsel regarding the ability to accept specific master's degrees in place of the 20 units of accounting study.

VIII. Public Comments

The CBA received a written comment on behalf of the AEC from Robert J. Yetman, Associate Professor of Accounting in the Graduate School of Management at the University of California, Davis (**Attachment #8**).

No further public comments were received.

ADJOURNMENT.

There being no further business to be conducted, the meeting was adjourned at 3:44 p.m. on Wednesday, June 23, 2010.

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Ruben Davila, Chair

Prepared by Jenny Sheldon, Licensing Coordinator.

State of California
Department of Consumer Affairs

Attachment 2

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

M e m o r a n d u m

AEC Agenda Item IV.
September 3, 2010

To : AEC Members

Date : August 23, 2010

Telephone : (916) 561-4310
Facsimile : (916) 263-3672
E-mail : dfranzella@cba.ca.gov

From : Dominic Franzella, Manager
Renewal/Continuing Competency & Client Services Units

Subject : Consideration of Draft Regulatory Language for the 20 Units of Accounting Study

At the June 23, 2010 Accounting Education Committee (AEC) meeting, members continued deliberations on establishing a framework for the additional 20 units of accounting study that will be required for certified public accountant licensure beginning January 1, 2014. At the meeting the AEC made the below recommendations.

- The 20 units of accounting study must be completed at an upper division level or higher.
- A minimum of six units must be completed in accounting subjects as defined by Section 9.2(b) of the California Board of Accountancy (CBA) Regulations.
- A maximum of 14 units can be completed in business-related subjects (as defined by Section 9.2(c) of the CBA Regulations) or other academic work relevant to accounting and business.
- No more than four units completed in internships or independent studies can be counted towards the 20 unit accounting study requirement.
- Applicants documenting completion of a master of accounting or taxation should be deemed to have met the 20 units of accounting study.

Related to the last recommendation, staff informed members at the June 23, 2010 meeting that CBA legal counsel needed to opine on whether the statute provided enough flexibility to allow for the completion of a specified master's degree to meet the 20 units of accounting study. Unfortunately, CBA legal counsel has informed staff that given the specificity of the statute to require applicants to complete the 20 units of accounting study, the aforementioned recommendation would go beyond the scope of the statute.

That said, if the AEC still believes the recommendation should be considered by the CBA, it can make the recommendation in conjunction with any proposed regulatory language submitted to the CBA for review. If the CBA concurs with an AEC recommendation to allow for a specific master's degree to meet the 20 units of accounting study, it could consider seeking a legislative change in an upcoming session.

In the attached document, staff have provided draft regulatory language which would effectuate the AEC's recommendations for the 20 units of accounting study, minus the recommendation regarding the master's degree. One area that still needs careful consideration is defining the term "other academic work relevant to accounting and business."

For the last meeting, AEC Chair Ruben Davila, provided a document in which he outlined a proposed definition for the term "other academic work relevant to accounting and business." Staff have included the proposed definition, but have made some minor revisions to transition the language into a regulatory format.

One of the more significant revisions staff made was removing the terms, "SEC regulations," "bankruptcy," "estate planning," and "mergers and acquisitions," as it appears applicants could claim these courses under the accounting and business-related subject areas already included in the regulations, so including them would be duplicative and unnecessary. If the AEC feels that inclusion of these courses is necessary, the courses can be included in the final language reviewed by the members.

In reviewing the proposed definition for "other academic work relevant to accounting and business," members may wish to consider the two issues below. The purpose for identifying these issues is to ensure that the final language adopted reflects the AEC's intention, and is sufficiently clear so that both staff and, more importantly, applicants understand the requirements for licensure.

First, the language presently proposed in Section 9.3(b)(1) may allow any courses completed at an upper division level or higher in subjects such as English, Biology, and Communications to qualify for the 20 units of accounting study. This would include courses such as the Metaphysical Poet, Plant Taxonomy, and Staging and Lighting Digital Video.[1] It would, however, require the applicant to substantiate how a course relates to enhancing his/her skills to practice public accounting.

Second, college and universities build most of their course offerings around skills that emphasize writing, research, and critical thinking. Applicants could attempt to

[1] Courses pulled from California State University, Sacramento's present course catalog offerings.

claim just about any course due to the writing, research, and critical thinking components.

As members give consideration to the above-mentioned issues, it is important to remember that when the Legislature previously considered requiring 150 units for licensure it was concerned about having a “hollow” 30 units, as well as how the additional units could create barriers to entry. Members, thus, must strike a balance between being overly broad and overly burdensome.

On a final note, until such time as the Ethics Curriculum Committee makes its final recommendations on the 10 units of ethics, staff cannot predict how any of the proposed ethics recommendations will affect the draft regulatory language being provided to the AEC.

Based on discussions at the upcoming September 3, 2010 meeting, staff will include any edits, feedback, and further recommendations AEC members believe necessary to the proposed regulations. Staff will bring a final draft of the proposed regulations to the following AEC meeting.

Attachment

9.3 Education Required Under Business and Professions Code Section 5093 to Apply for a Certified Public Accountant License

(a) An applicant applying for licensure after December 31, 2013, in addition to meeting the 24 semester units of accounting subjects described in Section 9.2(b) and the 24 semester units of business-related subjects outlined 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 below.

(1) All units must be completed at a college or university level of upper division or higher, with a maximum of four semester units completed in internships or independent study.

(2) A minimum of six semester units must be completed in accounting subjects as described in Section 9.2(b).

(3) A maximum of 14 semester units may be completed in business-related subjects as described in Section 9.2(c), or may be completed in other academic work relevant to accounting and business as described in subsection (b) below.

(b) Other academic course work relevant to accounting and business shall provide an applicant with skills and knowledge enhancing his/her ability to practice public accounting and include the following:

(1) Courses completed in the following subjects: Communications, Journalism, Psychology, English, Biology, Medicine, Chemistry, Engineering, Architecture, and Real Estate.

(2) Courses which emphasize writing, research, critical thinking, negotiations, and logic.

(c) 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.

(d) For purposes of this section, one quarter unit is equivalent to two-thirds of one semester unit.

TESTIMONY OF ED HOWARD REGARDRING DRAFT ACCOUNTING STUDY REGULATIONS

Good morning. My name is Ed Howard and I am Senior Counsel for the Center for Public Interest Law. Thank you for the opportunity to address you today.

As trenchantly explained in your staff analysis, one part of this proposal – we think unwittingly -- violates both the spirit and letter of the law and we earnestly hope to work with you to address this legal problem before this draft is more widely circulated.

With this goal in mind, and with your permission, I would like to break up my testimony into three parts:

- First like to explain in some detail what it is about this current draft that so troubles us.
- Second, I would like to offer some suggested strategies for addressing some those problems in a way that permits flexibility, but flexibility within the four corners of what the law requires.
- Third, I would be pleased to answer any questions you may have.

THE CURRENT DRAFT IS UNLAWFUL AND POTENTIALLY OVERLY BURDENSOME ON STUDENTS

There are four things that trouble us about the current draft but the first most of all.

ONE: As your excellent staff analysis correctly observes, the current draft violates both the letter and spirit of current law by allowing courses that have no relationship to accounting or accounting practice. As a result, the current draft, if adopted, would not be lawful.

Section 76 states the findings of the Legislature that if state law is going to switch out a year of real-world, practical accounting experience for 30 units of education, that education "must be relevant to the practice of accountancy."

Likewise, Business & Professions Code section 5094.6(e)(3) defining and therefore limiting the very term this Committee is charged with implementing -- "accounting study" – reinforces the Legislature's findings. It defines and therefore limits study to "work in accounting, business, ethics, business law, or

other academic work relevant to accounting and business, so as to enhance the competency of students as practitioners."

The letter of the law is therefore clear: the coursework you approve must be relevant to what CPAs, as practitioners, do all day, as CPAs. Current law helpfully provides examples of what the Legislature believes such coursework to be: business, for example.

The spirit of the law is nicely summarized by your staff analysis. As your analysis correctly observes, the longstanding controversy about the extra 30 hour requirement was that the extra 30 hours were, as the industry describes it, "hallow," meaning that the units could be in any coursework of the applicant's choosing with little or no relevance to CPA practice. Being hallow, the barrier to entry posed by the extra 30 hours to economically disadvantaged students could not be justified. This was the main reason the extra 30 hours had been rejected in the past and current law is noteworthy for rejecting this "hallow" approach, instead requiring the extra education in lieu of actual experience to be immediately relevant to accounting.

In contrast to this letter and spirit, as your staff analysis points out, the current language defining "other academic work relevant to accounting and business" would permit students to take courses such Metaphysical Poet, Plant Taxonomy, and Staging and Lighting and Digital Video.

It would also without limitation permit coursework in Psychology, for example, and therefore permit courses such as child psychology and sexual behavior to qualify as being relevant to CPA practice.

Worse, the current draft would permit fully 14 of the 20 units to be in such coursework; coursework that violates the letter and spirit of the law.

The reason this happens is because the draft uses shorthand words that describe whole departments – Psychology, English, Biology – rather than particular courses or kinds of courses within those departments that might qualify. Thus, for example, while I would be hard pressed to explain the relevance of a course in Chaucer to CPA practice, a course in composition offered by the same department might very well be relevant to CPA practice and therefore lawful.

More broadly, current law does not permit coursework that simply might improve the mind and therefore potentially the practice of a CPA. As your analysis points

out, every course offered in a university in some way is offered to improve a student's mind, by definition. Therefore, if such reasoning is adopted, every kind of course offered by a university becomes accounting-related, and the law's self-evident intent to prevent exactly such permissiveness is functionally and therefore unlawfully repealed. The desire for a well-rounded student cannot trump current law, which must endure as the Committee's touchstone.

We hope to work with you collaboratively on fixing this problem.

TWO: We are troubled by the requirement that all of the coursework be in upper division courses. Unlike the first issue, this is not a legal problem because the statute does not expressly forbid what is in the draft. However, nothing in the law requires it, either. While we welcome an emphasis on rigor, as your staff analysis helpfully observes, a balance should be struck between being overly broad, as is the case with the first problem, and being overly burdensome.

We think it is overly burdensome to require all of the 20 units be in upper division coursework. Such coursework is frequently less available and admits fewer students per class, and therefore might pose a barrier to entry into the profession not because of its rigor but because economically disadvantaged students must work while attending school and therefore have less scheduling flexibility.[1]

THREE: Again echoing your staff analysis, a draft that would require the applicant to prove that a particular course relates to enhancing his or her skills as a CPA places students in an unfair position, in our view. Students should not be potentially enticed into taking courses that after-the-fact the Board may decree not to be sufficiently related to accounting to qualify. We hope the Committee will come up with bright lines that place students fully and clearly on notice as to what will and will not satisfy requirements.

FOUR: Your staff analysis states that your counsel believes the statute is insufficiently flexible to permit a masters in accounting to qualify as meeting the 20 units in extra study. I have enormous respect for your counsel; however, I'm not sure I agree with that conclusion. I would appreciate the opportunity to discuss this issue with your counsel to get a fuller picture of the basis for this opinion. In the meantime, I would request not eliminating this from your thinking.

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[1] A post hearing observation. The courses that are on their face and from their course description that will be the least likely to be relevant to CPA practice are upper division courses. These courses by design more narrowly hone in on specific topics, such as those highlighted in staff's analysis.

Those are the four problems we see with this draft. Obviously, the first eclipses the other three in importance.

SUGGESTIONS

We do have some suggestions that we hope might be helpful to the Committee in addressing the first problem.

As mentioned, the problem with the current draft is that it uses words that are synonymous with whole departments that are not readily associated with CPA practice, thus admitting every course taught within those departments. We suggest rejecting this approach outright because it will always be over-inclusive unless restrained to the most obviously relevant subjects, as is currently the case in section 9.2(c).

To reiterate: simply listing departments or broad subjects like "architecture," thereby permitting every course falling under those headings in a catalogue to qualify, will lead to absurd and therefore illegal results that will discredit the endeavor.

Instead, the Committee may wish to consider the following alternative options:

First, simply require all of the 20 units to be in "business-related subjects" as defined in the Board's current regulations, section 9.2(c). Observe how broad that definition reads. It provides for courses in:

"business administration, economics, finance, business management, marketing, computer science/information systems, statistics, business communications, mathematics, business law, or business related law courses offered by an accredited law school."

All of courses falling under these categories would likely be upheld by a court as being related to CPA practice. Even so, the impressive number of categories and the breadth of such courses described by them means that students would have a wide variety of choices and be offered courses that fit in their schedules. You could still calibrate the proposal to require some in upper division and some internships or independent study, but the merit of this option lies with its simplicity. The Board and the CPA community know how to implement it because it is in current regulation. It is straightforward. It is likely immune from legislative

or legal challenge while still being quite broad and flexible. It makes the task of this Committee and the Board simple.

Second, a more difficult option is to try in words to describe the kinds of skills that you want a CPA student to obtain from any course. Your current draft, at (b)(2), tries to do this, albeit in shorthand. Logically and abstractly speaking, this approach could be consistent with the law, but to prevent over-inclusiveness that fails to differentiate between, say, industrial or business psychology and child psychology, or composition and Chaucer, much would depend upon the accuracy and precision of your descriptions. Likewise, such an approach will be its very nature offer less concrete guidance and forecasts to students and staff as to which courses will and will not qualify.

A **third** option is to isolate those department-like words (e.g., "English") that are less obviously related to accounting and refine them with skills-emphasizing language similar to what is tersely in (b)(2) of the draft regulation.

Next, one could restrain the words to a certain limited number of units depending upon the apparent nexus between the descriptive words and CPA practice.

For example, you could draft something like "6 units in business communication" and leave it at that. Any risk that the words "business communication" will be to broad is ameliorated both by its specificity ***and*** by it being only 6 units. Because "business communications" is categorically obviously relevant to CPA practice, you do not need any skill-explaining words to further qualify it.

For a different example, consider English. As discussed, using the word alone is too broad, especially when fully 14 of the 20 units are allowed to be satisfied by it. But, you can restrain the risk of over-breadth simply by, ***first***, restraining the units that could be taken under English, and ***second***, refining what you mean by English with words that emphasize ***those precise skills that are applicable to CPA practice***. Thus, something like "3 units in an English department course where the course was in composition, writing, or editing" would likely pass legal muster, twice-over. It would pass muster because the skills-emphasizing words qualify it and because the smaller number of units makes the overall regulation less likely to be viewed as one that is "hallow."

Observe that these options are not mutually exclusive but can be mixed and matched to suit the aims of the Committee and the dictates of state law.

CONCLUSION

In conclusion, I thank you for your time and patience. We hope that the problems with this draft are addressed before it is more widely circulated, and I am pleased to answer any questions you may have.

Respectfully submitted:

Ed Howard

September 3, 2010

State of California
Department of Consumer Affairs

Attachment 4

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

M e m o r a n d u m

AEC Agenda Item V.
September 3, 2010

To : AEC Members

Date : August 20, 2010

Telephone : (916) 561-4339
Facsimile : (916) 263-3672
E-mail : jsheldon@cba.ca.gov

From : Jenny Sheldon, Coordinator
Renewal/Continuing Competency Unit

Subject : Discussion Regarding the Impact on Applicants Completing Education at Universities or Colleges Outside California

At the June 23, 2010 Accounting Education Committee (AEC) meeting members expressed concern over whether the proposed accounting study requirements (**Agenda Item IV**) would present barriers to licensure for students completing their education in another state. When considering this topic it is important to distinguish two categories of individuals who may seek licensure in California - out-of-state licensees licensed for a minimum of four years, and unlicensed applicants or out-of-state licensees licensed for less than four years.

The education requirements considered in this memorandum are the existing 24/24 requirement and the new 20 units of accounting study. As the Ethics Curriculum Committee has yet to meet and begin discussion of the additional 10 units of ethics education, it would be premature to discuss the impact of those units on applicants at this time.

Out-of-State Licensees Licensed For a Minimum of Four Years

Individuals holding a certified public accountant (CPA) license in another state will not necessarily be required to have completed the specified education requirements. Section 5087 of the Accountancy Act provides the CBA with the authority to issue a CPA license to any applicant who is a holder of a valid and unrevoked CPA license under the laws of any state, if the CBA determines that the standards under which the applicant received the license are substantially equivalent to the standards of education, examination, and experience in California.

Based on this statutory authority Section 21 of the CBA Regulations states that an applicant may be considered to have met the education requirements for issuance of a California license if the applicant has engaged in the practice of public accounting as a licensed CPA in another state for four of the ten years preceding the date of application for a California license. Consequently, individuals with the requisite years of experience would not be required to document completion of the

specified college coursework and would not be affected by the additional education requirements for licensure in California.

Unlicensed Applicants and Out-of-State Licensees Licensed Less Than Four Years

Applicants who obtained their education in another state and have never been licensed or have been licensed less than four years, and wish to apply for licensure in California will be required to document completion of California's education requirements.

States where it does not appear that meeting the California education requirements will present a significant problem for applicants include Alabama, Arizona, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Kansas, Michigan, Missouri, Nebraska, Nevada, New Jersey, Ohio, Rhode Island, South Carolina, Texas, Utah, Virginia, West Virginia, and Wisconsin.

The above list includes 22 states in which applicants will likely meet the education requirements for licensure in California by fulfilling the education requirements for licensure in the state where the applicant completed the education. In making this determination staff used the resource material provided at the June 23, 2010 AEC meeting to identify states that require either a minimum of 54 units of accounting and business-related subjects or accept a graduate degree in accounting in place of the specific unit requirements. Due to the wide range of courses available under the present proposal of allowing 14 units of coursework in "other coursework relevant to accounting and business," it is expected applicants in these states will be able to find sufficient courses to fulfill the education requirements.

For the remaining 27 states not identified above, staff anticipate exposing draft regulatory language to include a sampling of colleges and universities from these states, thus making them aware of the upcoming educational changes for California and hope the information will be shared with students.

While it is clear that neither the CBA nor AEC members wish to create barriers to entry for applicants from out-of-state, this desire must be balanced with the purpose of enhancing consumer protection and strengthening the competence of applicants as practitioners. In the end, it will be incumbent on the individual college student to ensure he/she completes the courses required for licensure in California if it is his/her intent to apply for licensure in this state after obtaining education from an out-of-state college or university.

State of California
Department of Consumer Affairs

Attachment 5

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

M e m o r a n d u m

AEC Agenda Item VI.
September 3, 2010

To : AEC Members

Date : August 18, 2010

Telephone : (916) 561-1740
Facsimile : (916) 263-3675
E-mail : dpearce@cba.ca.gov

From : Deanne Pearce, Chief
Licensing Division

Subject : Discussion on a Plan to Circulate Proposed Regulatory Language for the 20 Units of Accounting Study to Affected Stakeholders for Possible Input

The Administrative Procedure Act (APA) provides for public participation in adopting regulations to ensure that affected and/or interested parties are afforded the opportunity to provide comments prior to proposed regulations being approved by the Office of Administrative Law.

Specifically, the APA mandates a minimum 45-day public comment period prior to the holding of a hearing on a proposed regulatory action. The public comment period is initiated by the mailing of a notice of proposed action, which includes items such as information regarding the date, time, and location of the hearing, a reference to the authority under which the regulations are proposed, a summary of the effect of the proposed action, and staff contact information for questions or comments to name a few. These actions are taken after the draft regulatory language has been approved by the California Board of Accountancy (CBA) members.

It is the understanding of staff that Accounting Education Committee (AEC) members wish to initiate a less formal pre-exposure of the proposed draft regulatory language prior to finalizing the language for review by the CBA members. Based on this request, staff suggest mailing the draft language with a cover letter to the CBA's interested parties list, which includes California's colleges and universities. This mailing can also be expanded to include a sampling of colleges and universities from neighboring states and those states with substantially different education requirements as identified in **Agenda Item V**.

Staff will incorporate members' recommendations resulting from discussions under **Agenda Item IV** into the draft language and prepare a cover letter. Once appropriate approvals have been obtained, including review by AEC Chair Ruben Davila, if desired by members, the mail out will be initiated. It will be important to designate a specific comment period, possibly 30 days, after which staff will compile all comments received for review by members at the next AEC meeting.

Additionally, staff can place the draft language on the CBA Web site and send out an E-News notification of its availability. Staff welcome member's suggestions for additional outreach opportunities.

Attachment 8

1235 Radio Road
Redwood City CA 94065
(800) 922-5272
www.calcpa.org

AEC Agenda Item VIII.
September 3, 2010

August 4, 2010

Mr. Ruben A. Davila, AEC Chair
C/o California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

Dear Mr. Davila and Accounting Education Committee members:

The Accounting Education Committee of the California Society of CPAs (AEC) would like to provide our recommendations on the matters your committee will be addressing. The mission of our committee is "to improve accounting education in California through the collaboration of educators and practitioners." The committee is currently comprised of approximately 32 members – evenly split with 16 accounting educators and 16 CPA practitioners. The accounting educators on the committee represent seven California State Universities, two University of California campuses, six private universities and one two-year community college. The practitioners represent three Big Four firms, one national, two large multi-office firms, five large local, three small firms and one sole practitioner.

The AEC meets twice a year in different locations around the state. In conjunction with each meeting we hold a three-hour roundtable discussion where we invite educators and practitioners from around that local geographic area. The roundtable discussions are an ongoing discussion that began at the AEC's November 2008 Educator Practitioner Forum on the challenges facing the public accounting profession over the next decade. We continue to examine what accounting students should know, what educators should teach, and whether accounting graduates are adequately prepared for the business world. The information we have gathered from our Forum and roundtable discussions will be the basis for some of our recommendations. A forthcoming paper in the *Journal of Accounting Education* entitled "A Professorial and CPA Alliance to Improve Undergraduate Accounting Education" details the survey results obtained from seasoned CPA practitioners on which undergraduate academic areas merit the most attention when preparing students to succeed in public accounting.

As stated previously, over the course of the past 18 months, our committee has hosted several roundtable discussions with California CPAs, practitioners and educators, to discuss what level of accounting education is needed to be a successful CPA. The CPAs polled favored the 150-hour requirement and supported a balanced academic program with emphasis on developing written communications skills and analytical thinking. Most practitioners felt that students did not need to take additional accounting specific courses, but rather what they were lacking was more broad based skills. The key skills that they felt should be included in an academic program in addition to technical accounting knowledge included: written and oral communication skills, analytical thinking, high ethical standards, quantitative problem solving skills, research skills, general business knowledge, ability to work in teams and information technology skills. In the spring of 2010 California State University at Northridge (CSUN) conducted a "Written Communication Skills – Employer Expectations Survey." The results of the survey can be found in a forthcoming paper entitled "Written and Computer-mediated Communication Skills: An Employer Perspective" in *Issues in Information Systems.* The survey results indicated that written communication skills of entry-level accounting professionals are getting better but more work is needed. The survey also detailed specific areas that needed more work and emphasized the need for communication courses. CSUN is doing a follow up survey regarding oral communication skills during the fall of 2010.

Given the input from the aforementioned sources, our committee believes that the additional 20 units of "accounting study" required by California State Bill 819 should include a wide range of academic courses that would provide a broad base of knowledge to a CPA candidate. The courses should be those that teach the skills our roundtable and forum participants emphasized are critical to the CPA professional. The menu of allowable courses should include business courses, especially ones that emphasize business strategy, tax and business law, corporate governance, organizational behavior and valuation skills. It should also include communications classes, math, information technology, logic, psychology and speech.

Today's CPA works in a global environment with clients operating all over the world in a variety of industries. "Rapid change has been the main characteristic of the environment in which professional accountants work. Pressures for change are

coming from many sources including: globalization, digitization, and the expansion of stakeholder groups including regulators and oversight boards. Professional accountants are now expected to serve the needs not only of investors and creditors but also the information needs of many other users of financial and non-financial information. Businesses and other organizations are engaging in ever more complex arrangements and transactions; risk management has become more important. Information technology continues to advance at a rapid pace and the Internet has revolutionized global communications. Trade and commerce have become more transnational. Privatization has become an increasingly important trend in many countries. Legal action has become more usual in many societies, while in others it is the legal framework that defines the profession's responsibilities. Concern for the environment and sustainable development has grown. These trends lead to the need for greater accountability and, as a result, in all cultures demands on the profession are high and continue to rise. It is the profession's capacity to satisfy these demands that determines its value to society." (IFAC, Introduction to International Education Standards, 39).

These trends indicate the need for more well-rounded business oriented CPA professionals. Coursework that teaches the fundamentals and technical aspects of various industries such as science, engineering and real estate would be beneficial to help ensure the CPA professional has an understanding of the businesses in which their clients operate. We recommend that your committee define the 20 units of other courses relevant to accounting and business to include a broad menu of acceptable courses including the ones discussed above.

Based on the aforementioned information, we do not believe that more accounting coursework is what is needed to be a successful CPA. According to Senate Bill 819 there is no requirement that the additional 20 units of accounting study include any additional accounting units. As such, we would not recommend that the 20 additional units require a minimum number of accounting units. Instead the 20 units of Accounting Study should be in either accounting and/or business related topics as defined by Section 9.2 of the California Board of Accountancy Regulations or in other academic areas relevant to the practice of accounting all at the upper division level. We agree with your recommendations to the committee on what other academic areas relevant to the practice of accounting might include as presented at your last committee meeting as follows:

- important skills that enhance the ability to practice accounting or business such as communications, speech, writing, journalism, negotiations, critical thinking, logic, psychology, research, English, thesis, etc.
- established fields of study or science that are practiced in business or industry such as biology, medicine, real estate, engineering, chemistry, architecture, business related law courses such as corporations, mergers & acquisitions, SEC regulation, property, contracts, real property, bankruptcy, estate planning, etc.

We agree that the classes listed above are intended to be representative and not all inclusive. Additionally, we would support a recommendation that no more than three units of internship and/or directed study could be applied to the 20 units of Accounting Study.

We also recommend accepting a graduate degree in accounting or tax from a program that is accredited in accounting and or business by the American Assembly of Collegiate Schools of Business (AACSB), or comparable accrediting organization recognized by the Board in lieu of completing the specific accounting and business courses required for applicants with a baccalaureate degree. Eight states (Alabama, Idaho, Illinois, Iowa, New Jersey, Rhode Island, Wisconsin, and Wyoming) currently allow this. The graduate degree must include 24 hours of business and 24 hours of accounting coursework as currently required by the California Board of Accountancy if the student did not obtain those hours at the undergraduate level.

We believe that our recommendations will not impose significant costs on educational institutions in the state of California. This is important since there have been significant reductions in state funding for all state universities which are likely to be permanent. With tuition and fees rising rather sharply for students for the past few years, additional financial burdens will make it likely for many students to choose other courses of study. Staffing of additional courses of accounting is an additional concern. Using full or part-time lecturers to staff these classes is not the solution. Accreditation requirements under AACSB severely limit the amount of teaching that can be done by part-time or even full-time lecturers. As such any new accounting classes would need to be taught by new tenure track faculty. Most state universities are shrinking not growing their faculty and there is a shortage of qualified accounting doctorates.

Summary and Recommendations:

Based on our forum, roundtable discussions, CSUN survey and the changing environment CPA professionals will be working in as outlined by IFAC, we believe that the current requirement of 24 semester hours of accounting is sufficient to produce high quality CPAs. Students don't need more accounting**;** they need skills that enable them to be business advisors; financial analysts; excellent communicators and capable negotiators. "As the world moves toward global market economies, and with investments and operations crossing borders to an ever greater extent students need a broad global outlook to understand the context in which businesses and other organizations operate."(IFAC, Introduction to International Education Standards, 38). More business and other academic education related to the practice of accounting is more desirable. Additional accounting will only raise the costs and may make it impossible for those who come from educationally and economically disadvantaged backgrounds.

We recommend that the 20 units of Accounting Study should be in either accounting and/or business related topics as defined by Section 9.2 of the California Board of Accountancy Regulations or in other academic areas relevant to the practice of accounting all at the upper division or graduate level. We also recommend accepting a graduate degree in accounting from a program that is accredited in accounting by the American Assembly of Collegiate Schools of Business (AACSB), or comparable accrediting organization recognized by the Board in lieu of completing the specific accounting and business courses required for applicants with a baccalaureate degree.

Our recommendations will provide the necessary flexibility to deal with the cost and accessibility issues which were the reasons for adopting SB 819 in the first place. It is imperative that new California CPAs are adequately prepared to provide accounting, attestation, tax and other services in this complex business environment. Our committee will also be addressing under separate cover to the Ethics Committee our comments on the required 10 units of ethics education and the feasibility and costs to implement a requirement of that magnitude.

We want to thank you and your committee in considering our recommendations when formulating your final recommendations to the California Board of Accountancy.

Yours truly,

Chrislynn Freed
Co-chair AEC committee

Charles Osaki
Co-chair AEC Committee

cc: Bruce Allen
Patti Bowers
Harold Schultz
Jeannie Tindel
Michael Ueltzen