

CALIFORNIA BOARD OF ACCOUNTANCY

INITIAL STATEMENT OF REASONS

Hearing Date: November 18, 2011

Subject Matter of Proposed Regulations: Accounting Study

Sections Affected:

1. Adopt Section 2.8 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would define “satisfactory evidence” of completion of educational qualifications as certified transcripts mailed directly to the Board from the educational institution. It allows that in unusual circumstances, other evidence may be accepted by the Board. It states that foreign transcripts must be evaluated by a Board-approved credential evaluation service. This proposal would move this current definition of “satisfactory evidence” from Section 9.2(e) to newly established Section 2.8 for the purpose of making the definition applicable to the entirety of Division 1.

Factual Basis/Rationale:

The term “satisfactory evidence” is used frequently throughout the Accountancy Act when describing minimum educational requirements for licensure. As a result, the Board deemed it appropriate to apply the current Section-limited definition to the entire Division. This will further assist in providing specific criteria and direction from the Board as to what evidence of meeting educational requirements would be deemed “satisfactory” to make an applicant eligible for licensure.

2. Amend Section 9.2 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would delete the definition of “satisfactory evidence” which is being restated in proposed Section 2.8, and it would provide that the unit conversion formula (which converts educational “semester” units to “quarter” units) is applicable to the entire “article” rather than limited to only this section.

Factual Basis/Rationale:

The term “satisfactory evidence” is used frequently throughout the Accountancy Act when describing minimum educational requirements for licensure. As a result, this definition is being moved to another new Section, 2.8, so it is clear that the definition

applies to all regulatory provisions within this Division. In addition, the new accounting study guidelines, which include specified “semester units” (see e.g., proposed Section 11.1) would be added to this Article. However, graduates of educational institutions acquire educational “quarter” as well as “semester” units. As a result, it is necessary to make the unit conversion formula (which converts educational “semester” units to “quarter” units) applicable to the entire “article” so these applicants can more easily determine whether their educational units qualify.

3. Adopt Section 11 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would specify the education that is required in order to apply for a license as a certified public accountant (CPA) after January 1, 2014. An applicant must provide satisfactory evidence of an education that includes 24 units of accounting subjects, 24 units of business-related subjects, 20 units of accounting study, and 10 units of ethics study, as specified.

Factual Basis/Rationale:

Section 5093 of the Business and Professions (B&P) Code requires 24 units of accounting subjects and 24 units of business-related subjects. Section 5094 requires an additional 20 units of accounting study, and 10 units of ethics study after January 1, 2014. This proposal will consolidate these requirements into one place and identify where the details of the requirements can be found.

4. Adopt Section 11.1 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would define the 20 units of accounting study required in Section 11 and would be required for applicants for CPA licensure after January 1, 2014. An applicant may meet this requirement by obtaining:

1. A Master’s degree in Accounting, Taxation, or Laws in Taxation; or
2. Completing a minimum of semester six units in accounting, a maximum of 14 semester units in business-related subjects, a maximum of nine semester units in other academic work relevant to accounting and business, and a maximum of four semester units in internships or independent studies.

This proposal would also define “other academic work relevant to accounting and business” as:

- a maximum of three semester units in courses that increase oral, verbal, written and presentation skills which also increase the ability to gather, critically analyze

- and assess, and reach conclusions from certain disciplines;
- a maximum of three semester units in foreign languages or in courses whose title contains the words “culture”, “cultural” or “ethnic”; and,
- a maximum of three semester units in courses providing information on the business, economic or financial markets within which a particular industry operates. Courses that provide information on business, economic or financial markets must include the word “industry” or “administration” in the course title or be completed in one of the following disciplines: Engineering, Architecture, or Real Estate.

Factual Basis/Rationale:

Section 5094.6 of the B&P Code requires the Board to adopt by regulation prior to January 1, 2012 guidelines for accounting study to be included as part of the education required for licensure as a certified public accountant as of January 2, 2014. In doing so, the Board is required to consider the views of the Accounting Education Advisory Committee (AEC) which was appointed by the Board pursuant to Section 5094.7. The AEC held several meetings in 2010 and 2011 at which the AEC considered testimony and information provided by members of the public, including members of the educational community, and developed a “Report on the Development of and Recommendations for the 20 Units of Accounting Study” (Report) (Attachment 1) upon which this proposal is based.

The only change made by the Board to the AEC’s recommendation is as follows: the AEC recommended applicants complete six of the 20 total units of accounting study at an upper division level or higher (Report, page 10, Recommendation #1). The Board eliminated that recommendation at its July 2011 meeting. The rationale for this change was based on a legal opinion provided by the Board’s Department of Consumer Affairs legal counsel (Attachment 2) that opined that such a requirement is inconsistent with the Board’s authorizing statutes.

Based upon the foregoing information received from the AEC and considered by the Board, the Board developed this proposed language to implement the requirements of Business and Professions Code sections 5094(b) and 5094.6(c).

Underlying Data

Technical, theoretical or empirical studies or reports relied upon (if any):

Attachment 1: Accounting Education Committee’s Report on the Development of and Recommendations for the 20 Units of Accounting Study dated July 21, 2011, with attachments

- Attachment 2: Legal Opinion: Legality of Requiring Upper Division Courses to Meet the Accounting Study or Ethics Study Guidelines Promulgated Pursuant to SB 819 (Stats. 2009, ch. 308) dated July 7, 2011

Business Impact

This regulation will not have a significant adverse economic impact on businesses. This initial determination is based on the following facts or evidence/documents/ testimony: It is not anticipated that this proposal would require any additional costs to businesses or individuals. The law establishes the requirement of the 20 units of accounting study. This regulation is designed to clarify and specify which courses would qualify in order to satisfy this requirement.

Specific Technologies or Equipment

This regulation does not mandate the use of specific technologies or equipment.

Consideration of Alternatives

No reasonable alternative to the regulation would be either more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed regulation.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

The Board of Accountancy is mandated to promulgate regulations to specify the 20 units of Accounting Study by January 1, 2012. Therefore, failing to adopt regulations is not a legally viable alternative.

The Board's Accounting Education Committee and the Board considered information and testimony received over a period of approximately 15 months. The Board believes that no alternative it considered would be either more effective than or as effective as and less burdensome on affected private persons than this proposed regulation.

The Board considered the AEC's recommendation requiring applicants to complete a minimum of six units of upper division level or higher, but this was rejected due to an opinion provided by the Board's legal counsel (Attachment 2) that opined that such a requirement is inconsistent with the Board's authorizing statutes.