

**STATE OF CALIFORNIA – DEPARTMENT OF CONSUMER AFFAIRS  
CALIFORNIA BOARD OF ACCOUNTANCY  
INITIAL STATEMENT OF REASONS**

Hearing Date: November 21, 2019

Subject Matter of Proposed Regulations: Obsolete and Outdated Regulations

Sections Affected: 7.1(c), 8, 70, 75.5, 87.6, 89.1

**Introduction**

The California Board of Accountancy (CBA) is mandated, pursuant to Business and Professions Code (BPC) section 5000.1, to ensure that the protection of the public is its highest priority in exercising its licensing, regulatory, and disciplinary authority. In achieving this mandate, the CBA regulates the accounting profession for the protection of the public. The CBA currently regulates over 100,000 licensees, including individual Certified Public Accountants / Public Accountants (CPAs/PAs), accountancy partnerships and accountancy corporations.

Pursuant to BPC section 5010, the CBA may adopt, repeal, or amend such regulations as may be reasonably necessary and expedient for the orderly conduct of its affairs and for the administration of the Accountancy Act.

Problem being addressed:

The CBA has identified several regulatory sections that are obsolete or contain outdated information. These regulations could cause confusion to the CBA's stakeholders, including consumers, applicants, and licensees.

To ensure that CBA's stakeholders have access to accurate and relevant regulations governing the practice of public accountancy in California, it is imperative that outdated or obsolete regulations be amended or repealed as appropriate.

Anticipated benefits from this regulatory action:

This regulatory proposal would amend or repeal outdated or obsolete provisions of the CBA's regulations set forth in title 16 of the California Code of Regulations (CCR). Amending or repealing these regulations will ensure accurate, relevant, and current information is available to consumers, applicants, and the CBA's licensees.

**Specific Purpose/Factual Basis/Rationale**

- 1. Repeal Title 16 CCR section 7.1(c) – Credit Status for the Computerized Uniform CPA Examination**

Section 7.1(c) contains outdated and obsolete language pertaining to applicants who passed any section of the Uniform CPA Examination (CPA Exam) within the six-month period following the commencement of computer-based testing in California in 2004. The language provides guidance regarding the timeframe those applicants were permitted to retain credit for the passed section and information regarding re-taking that section of the exam if the time period for retaining the credit for that section expired prior to passing all sections of the CPA Exam. The language in Section 7.1(c) is no longer relevant as the computer-based testing of the CPA Exam was implemented 14 years ago in 2004 and the 24-month retention period has passed. Because the language is outdated and no longer relevant to current applicants taking the CPA Exam, the proposed repeal of Section 7.1(c) to remove it from the CBA's regulations is necessary to eliminate any confusion for applicants.

## **2. Repeal Title 16 CCR section 8 – Examination Final Filing Dates**

Section 8 contains outdated and obsolete language pertaining to application submission dates during the period the CPA Exam was administered in a paper and pencil format. In 2004, the CPA Exam transitioned to a computer-based format, exclusively, and allows continuous application submission and testing for initial and repeat applicants. Because there are no due dates for application submission, the language contained in Section 8 is outdated and no longer relevant to current CPA Exam applicants. The proposed repeal to remove Section 8 from the CBA's regulations is necessary to eliminate any confusion for applicants.

## **3. Amend Title 16 CCR section 70 – Fees**

Section 70 identifies various fees that were in place between July 1, 2014 and June 30, 2016. Because the timeframes and fees identified for repeal in Section 70 have ended and are no longer in effect, the language proposed for repeal is no longer relevant or necessary. Repealing the language and removing it from the CBA's regulations is necessary to eliminate any confusion for applicants, licensees, and other stakeholders.

## **4. Amend Title 16 CCR section 75.5 – Application; Review of Refusal to Approve**

Section 75.5 contains references to regulatory and statutory requirements that applicants for an accountancy corporation must meet in order to obtain a Certificate of Registration from the CBA. The regulation references sections that are no longer in existence. To ensure that applicants for an accountancy corporation license have accurate information regarding licensing requirements, the CBA is proposing to amend this section to reflect existing and relevant regulatory sections. The proposed amendment would delete references to Sections 75.7 and 75.10, which are no longer in existence, and replace them with Sections 75.8 and 75.9. This is a non-substantive change to the regulation,

since Sections 75.8 and 75.9 were included in the existing text. Section 75.8 is being included to require that accountancy corporations maintain adequate security for claims against it by its clients or each be deemed to agree that every shareholder of the corporation be jointly and severally liable for claims against the corporation by its clients arising out of the rendering of, or failure to render, professional services. Section 75.9 is being included to ensure that applicants for an accountancy corporation adhere to the requirements of section 13406 and 13407 of the Corporations Code and 5079 of the BPC regarding requirements and restrictions for share certificates. Amending this language is necessary to provide clear guidance to applicant corporations regarding applicable licensing requirements.

#### **5. Repeal Title 16 CCR section 87.6 – Records Review Continuing Education Requirements**

Section 87.6 contains outdated language regarding the establishment and purpose of the Report Quality Monitoring Committee. While Section 87.6 contains reference to the Report Quality Monitoring Committee for all practical purposes it has not existed since the early 2000s. The Report Quality Monitoring Committee's purpose was to review financial reports, selected under Section 89.1, to monitor and promote compliance with applicable accounting principles and reporting standards and to prescribe continuing education as necessary. The CBA has not appointed members to the Report Quality Monitoring Committee for many years and, consequently, the committee is no longer in existence. The repeal of this section will ensure the CBA's regulations are accurate and reflect the current reality that the committee does not exist. Additionally, the CBA implemented mandatory Peer Review for firms who perform accounting and auditing work. The Peer Review process requires a specific portion of an accountancy firm's work to be reviewed to ensure it is in compliance with established professional standards. As a result of peer review, the requirement to separately review financial reports of licensees and prescribe continuing education based on the review of the Report Quality Monitoring Committee review is no longer necessary. Repealing Section 87.6 is necessary to eliminate an outdated regulation and help ensure the accuracy of the CBA's regulations.

#### **6. Repeal Title 16 CCR section 89.1 – Reports**

Section 89.1 contains outdated language that authorizes the Report Quality Monitoring Committee (as established in Section 87.6) to require licensees to supply selected financial reports for review and establishes what constitutes a "financial report" for this purpose. The Report Quality Monitoring Committee is no longer in existence and has not been used by the CBA for many years. Because they are no longer in existence, the requirement to define what constitutes a financial report is no longer necessary or relevant. Additionally, the CBA implemented mandatory Peer Review for firms who perform accounting and auditing work. The Peer Review process requires a specific portion of an

accountancy firm's work to be reviewed to ensure it is in compliance with established professional standards. As a result of peer review, the requirement that a committee separately review financial reports of licensees is no longer necessary. Repealing Section 89.1 is necessary to eliminate an outdated regulation and help ensure the accuracy of the CBA's regulations.

### Consumer Protection

The CBA's mission is to protect consumers. It does this by enforcing various rules as they relate to applicants for examination and licensure and certified public accountants and accountancy firms. This proposal protects consumers by maintaining clear and accurate regulations relating to the practice of public accountancy in California that the CBA is mandated to enforce.

### **Underlying Data**

Technical, theoretical, or empirical studies, or documents relied upon:

- May 18-19, 2017 CBA Meeting Agenda Item VIII.C.2 – Discussion and Possible Action to Initiate a Rulemaking to Amend or Repeal Title 16, California Code of Regulations Sections 7.1 – Credit Status for the Computerized Uniform CPA Examination, 8 – Examination Final Filing Dates, 70 – Fees, 75.5 – Application: Review of Refusal to Approve, 87.6 – Records Review Continuing Education Requirements, and 89.1 – Reports, including meeting agenda and materials
- Minutes of the May 18-19, 2017 Committee on Professional Conduct Meeting
- Minutes of the May 18-19, 2017 CBA Meeting

### **Business Impact**

The CBA has made an initial determination that the proposed regulatory action will not have a significant adverse economic impact on businesses. This initial determination is based on the following facts or evidence/documents/testimony:

- This proposal impacts certified public accountants, accountancy firms, applicants for the CPA Exam and applicants for licensure.
- This proposal is a result of CBA action to ensure the accuracy and relevancy of its regulatory authority. The proposed changes are non-substantive changes designed to repeal outdated information.
- The proposed amendments and repeals only add clarity to existing regulations and have no adverse economic impact on any individual.
- This proposal will not impact the ability of California businesses to compete with businesses in other states.

## **Economic Impact Assessment**

This Regulatory proposal will have the following effects:

- It will not create or eliminate jobs within the State of California because the proposed amendments and repealed sections will remove or amend outdated and obsolete language.
- It will not create new businesses or eliminate existing businesses within the State of California because the proposed amendments and repealed sections will remove or amend regulations that are outdated or obsolete.
- It will not affect the expansion of businesses currently doing business within the State of California because the proposed amendments and repealed sections will ensure the accuracy of the CBA's Regulations relating to the regulation of the practice of public accountancy in California by deleting or amending outdated and obsolete regulations.
- This regulatory proposal benefits the health and welfare of California residents because the proposal would ensure that the CBA's stakeholders, including consumers, applicants, and licensees, have access to regulations that are clear, relevant, and accurate.
- This regulatory proposal does not affect worker safety because it has nothing to do with worker safety.
- This regulatory proposal does not affect the state's environment because it has nothing to do with the environment.

## **Specific Technologies or Equipment**

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

## **Consideration of Alternatives**

No reasonable alternative to the regulatory proposal would be either more effective in carrying out the purpose for which the action is proposed or would be as effective or less burdensome to affected private persons and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the law being implemented or made specific.

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

The only alternative considered was to maintain status quo. The CBA rejected this alternative because maintaining the status quo would continue the existence of outdated and obsolete regulations within the CBA's regulations, which could cause confusion to CBA consumers, applicants, and licensees. The proposed amendments and repealed sections will ensure the CCR relating to the regulation of the practice of public accountancy in California is current and only contains relevant laws.