

## **EXPOSURE DRAFT OF CHANGES**

### **OVERVIEW**

In January, the AICPA and NASBA Boards of Directors each approved for exposure changes to the Uniform Accountancy Act and Model Rules that would update them. Comments on this proposal are requested by **June 1, 2017**.

### **BACKGROUND**

The AICPA and NASBA have worked together since 1984 to produce the Uniform Accountancy Act (UAA) and UAA Model Rules to serve as reference documents for all U.S. states and jurisdictions as they update their own statutes and regulations. They are evergreen documents that are regularly reviewed and updated by the joint AICPA/NASBA UAA Committee. The UAA is subject to the final approval of the two organizations' Boards of Directors, while the Model Rules are subject to the final approval of NASBA's Board.

### **REGULAR UPDATE**

Since the last edition of the Uniform Accountancy Act, it has become evident that sections are outdated. For example, the five-year period for adopting the 150-hour education requirement has long ended for most jurisdictions to be substantially equivalent. There are a few other changes, such as the inclusion of a definition of "Preparation of Financial Statements," the deletion of Rule 10-4 Model Code of Conduct, and the deletion of the "Legislative Policy (Annotated) of the American Institute of Certified Public Accountants" as Appendix A of the UAA. Rule 10-4 is being deleted as Boards are being encouraged to pursue uniformity through reference to the AICPA Code of Professional Conduct, as more State Board involvement in development of that Code has occurred. The AICPA's Legislative Policy is completely determined by the AICPA and not subject to input from the States Boards. Most of the proposed changes resulted from suggestions made during the review process to achieve consistency in capitalization and punctuation.

There are other updating changes that inevitably will need to be made to keep the UAA "evergreen." This basically must be a continuous process of refreshing, which the UAA Committee will bring to your attention periodically.

The AICPA/NASBA Uniform Accountancy Act Committee believes these modifications of the UAA and Model Rules will positively impact the ability of the State Boards of Accountancy to effectively regulate the evolving accounting profession and to therefore meet the public's needs.

If you need additional assistance or have questions, please contact Suzanne Jolicoeur at AICPA at 919-402-4906 or Louise Dratler Haberman at NASBA at 212-644-6469.

Thank you for your continued support and assistance.

Sincerely,

*Deborah D. Lambert*

Deborah D. Lambert  
Chair AICPA UAA Committee  
February 15, 2017

*J. Coalter Baker*

J. Coalter Baker  
Chair NASBA UAA Committee

**[Note: Language to be deleted is stricken and new material is underlined.]**

\_\_\_\_\_ 2014

We are pleased to announce that the Uniform Accountancy Act (UAA), Seventh Edition,  
\_\_\_\_\_ 2014, is now available.

If you need additional assistance or have questions, please contact Mat Young at AICPA at 202-737-6600 or Louise Dratler Haberman at NASBA at 212-644-6469.

Thank you for your continued support and assistance.

Sincerely,

Gary McIntosh, CPA Debbie Lambert  
AICPA UAA Committee Chair

J. Coalter Baker  
NASBA UAA Committee Chair

# **Uniform Accountancy Act**

## **Seventh Edition**

### **May, 2014**

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and  
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## **Foreword**

This *Uniform Accountancy Act* was approved for publication by the Boards of Directors of the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA).

**May 2014**

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**Uniform**

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**Accountancy**

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**Act**

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American Institute of Certified Public Accountants

National Association of State Boards of Accountancy

## Preface

The modern public accounting profession originated in Great Britain during the latter half of the nineteenth century. In 1896 the New York state legislature passed the first law creating the title “certified public accountant,” thereby setting the pattern for state government regulation of the ~~P~~ublic ~~A~~ccounting profession in the United States.

As with other professions, the public accounting profession is built upon a statutory foundation providing for the examination and licensing of members of the profession, and for the regulation of their professional conduct. All CPAs are examined, licensed, and regulated under state accountancy laws, and there is such a law in every American jurisdiction.

A model bill to regulate the practice of public accountancy was first published in 1916 by the American Institute of Accountants, the predecessor of the American Institute of Certified Public Accountants (AICPA), ~~the national membership organization of certified public accountants~~. In 1984, the AICPA and the National Association of State Boards of Accountancy (NASBA) published the first joint model bill, later renamed the Uniform Accountancy Act (UAA). Ultimately, a substantial majority of the state accountancy laws followed, in their principal provisions, the example provided by earlier model accountancy bills and the Uniform Act.

A joint working group made up of representatives from the AICPA’s State Legislation Committee and from NASBA’s Uniform Accountancy Act Committee was formed to make changes which were incorporated into the 1992 Uniform Accountancy Act. ~~That Those groups, now acting as a joint UAA Committee, has have~~ continued to develop the language for revisions to the UAA, including that found in this edition.

While past joint efforts at promoting high professional standards, protecting the public and increasing uniformity of regulation have been important, they ~~have had~~ not produced the level of results either organization felt were satisfactory. This coupled with other significant factors occurring in the global marketplace for accounting services, led both AICPA and NASBA to begin to examine new ways to respond in this area. The AICPA, through the work of the Special Committee on Regulation and Structure and NASBA through its Reciprocity Committee and Future Licensing, Litigation and Legislation Committee, each began to explore new regulatory concepts and approaches that would be responsive to the challenges to the current regulatory system.

In March 1996, the Joint Committee on Regulation of the Profession (Joint Committee) was formed by AICPA and NASBA to share the concepts and ideas of each organization’s committees and to work to develop consensus on some significant new regulatory changes for the future. The members of the Joint Committee were leaders of AICPA and NASBA, as well as the state board Executive Directors group and the Certified Public Accountants’ Society Executives Association (CPA/SEA). After a year of meetings and discussions, the Joint Committee reached agreement on a new regulatory framework that it believed would: enhance interstate reciprocity and practice across state lines by CPAs, meet the future needs of the profession, respond to the marketplace and, most important, protect the public that the profession

serves. The Joint Committee's recommendations were approved by AICPA and NASBA leadership and were incorporated into the Third Edition of the Uniform Accountancy Act, in 1997.

Differing requirements for CPA certification, reciprocity, temporary practice, and other aspects of state accountancy legislation in the 55 American licensing jurisdictions (the 50 states, Puerto Rico, the District of Columbia, the U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands) constituted artificial barriers to the interstate practice and mobility of certified public accountants. The Uniform Act seeks to eliminate such differences and the barriers that they pose to effective practice of CPAs under modern conditions through the standard of "substantial equivalency" that was added to the Act in 1998. ~~It is fitting that this latest edition of the UAA is being released in the year of the 100<sup>th</sup> anniversary of NASBA's founding.~~ The mobility and enforcement enhancements that have been added can assure stronger and more efficient state board enforcement in the context of modern ~~trans~~cross-border and electronic commerce in which state lines are often blurred.

Many of the organizations requiring the professional services of certified public accountants transact business on an interstate, and even on an international, basis; as a result, the practice of CPAs typically extends across state lines and, often international boundaries as well. Thus, there is compelling need for the enactment of uniform state accountancy laws that foster rather than inhibit interstate professional practice and for laws that provide appropriately for international practice.

This Uniform Act is provided as a single comprehensive piece of legislation that could be adopted in place of existing state laws. Because there is an accountancy law now in effect in every jurisdiction, however, the Uniform Act is also designed to the extent possible with ~~separable~~ severable provisions, so that particular parts of this Act could, with appropriate amendments, be added to existing laws instead of replacing such laws entirely. In the interest of uniformity and to promote mobility through the substantial equivalency standard, the AICPA and NASBA strongly urge states to adopt the entire Act.

The Uniform Act reflects applicable AICPA and NASBA legislative policies. The principal AICPA legislative policy, as approved by its governing Council, is set out (in annotated form) in Appendix A. Appendix B now contains the new Statement on Standards for Continuing Professional Education (CPE) Programs approved by AICPA and NASBA. Appendix C sets out guidelines as to the substantial equivalency standard.

The Uniform Accountancy Act is designed to achieve several objectives. As the name of the Act suggests, the Act advances the goal of uniformity. In addition, the Act's provisions protect the public interest and promote high professional standards.

~~With respect to this edition, pages are dated so that in the future individual provisions can be revised without the necessity of reprinting the entire Act.~~

## **Introductory Comments**

### **A Note About Format**

Beginning with the 1992 edition, the Uniform Accountancy Act has been designed as an “evergreen” document. This edition makes revisions to Section 23 of the Uniform Accountancy Act (UAA) and conforming changes to Sections 7 and 14 to provide a comprehensive system for permitting licensee mobility while making explicit the boards’ authority to regulate all who offer or render professional services within their jurisdiction regardless of how those services are being provided. These changes achieve the goals of enhancing public protection, facilitating consumer choice and supporting the efficient operation of the capital markets.

The Uniform Act comprises the complete text of a statute (in boldface type) that could be adopted in place of any accountancy law now in effect, with explanatory comments (not intended to be enacted as part of the law) following some provisions printed in regular type. It may happen that a particular legislature will be interested in considering not a complete new law but only certain provisions, to be substituted for or added to provisions of the law already in effect.

An effort has been made to make the provisions of the Uniform Act readily adaptable for this purpose. However, in the event of piecemeal adoption, it is likely that changes in particular provisions will be required in order to tailor them to the terminology and structure of the existing legislation. The comments attempt to identify important matters that might need to be considered in such circumstances, but no effort has been made to identify every point regarding which adaptation might be required; that can better be done (and in any event would have to be done) when particular legislation is actually under consideration.

Whether the Uniform Act is considered for adoption wholly or only in part, adjustments may also be appropriate in light of other laws in effect in the particular state in question. Some provisions included in the Uniform Act may be unnecessary, for example, because they are covered by other laws of general applicability, such as a state administrative procedure act. Other provisions may be at odds with the way a particular matter is generally dealt with in the state—for example, the authority of licensing Boards, or their procedures, or their composition. Again, the comments attempt to identify the principal points requiring consideration in this regard. Provisions, such as the one related to the size of the Board (Section 4(a)) on which this Uniform Act presents specific choices, are flagged by brackets.

## **The Fundamental Principles That Should Govern the Regulation of Certified Public Accountants<sup>1</sup>**

The fundamental principles of the AICPA's and NASBA's legislative policies, and of the resulting Uniform Act, are few, and can be simply stated.

*First*, statutory regulation of CPAs, as of any other profession or occupation, is justified only by considerations of the public interest. The public interest must be a substantial one, since regulation necessarily involves restrictions on who can perform certain services and the manner in which they are performed. The conventional formulation is that regulatory legislation must be reasonably designed to protect the public health, safety, or welfare; the practice of CPAs has a significant impact on the public welfare.

*Second*, appropriately designed regulation of CPAs serves to protect the public welfare in two principal ways: (a) by providing reasonable assurance of competence on the part of persons and entities that perform those services that require a substantial degree of skill and competence for proper performance and regarding which the consequences of inadequate performance may be of serious dimension; and (b) by preventing deception of the public regarding the level of competence that may reasonably be expected of a given practitioner. A central element in the protection of the public welfare through the regulation of CPAs is prevention of circumstances in which persons who are not themselves in a position to judge the competence of a particular practitioner or the reliability of particular financial information may be induced to rely on assurances of such competence or reliability (explicit or implied) that are not reasonably supported in fact. Third-party reliance-reliance by persons not themselves clients of the certified public accountants whose professional work is relied on-is an example of the need for regulating CPAs in the public interest.

*Third*, although an expectation of some minimal level of competence is involved when a person or entity is engaged to perform services for hire, whatever the services may be, the degree to which such an expectation involves a substantial public interest and, in consequence, the degree to which it justifies legal regulation, varies significantly with both the level of skill required for adequate performance of the service, and the range and severity of adverse consequences that may derive from inadequate performance. Among the many different professional services that CPAs perform, one is, to a far greater degree than any other, affected by considerations of competence, namely, the attest function. expression of formal professional opinions upon financial statements.

Not only does the attest functionexpression of opinions on financial statements call for the greatest breadth and most intense development of the professional skills employed by CPAs, but it invites the highest degree of reliance by the widest segment of the public. When attest and

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<sup>1</sup>Including licensed public accountants

compilation services are not competently and properly performed, the breadth and severity of the possible adverse consequences are far greater than those attendant upon other services performed by CPAs. For these reasons, the keystone of the Uniform Act reserves the issuance of reports in standard form on audited, reviewed and compiled financial statements and other attest information to licensees who have demonstrated qualifications to perform attest and compilation services.

A professional service similar in nature to the audit function, although differing in the level of assurance implied, is the conduct of “reviews” of financial statements and the issuance of reports upon such reviews. Formal standards have been promulgated by the AICPA in a series of Statements on Standards for Accounting and Review Services (SSARS), and reviews conducted in accordance with such standards may call upon the same level of knowledge as does an audit. Although the degree of assurance (explicit and implied) in reports upon reviews purporting to comply with the AICPA’s formal standards is less than that expressed and implied by reports represented to be based upon an audit, the issuance of such reports is restricted to persons who have demonstrated the qualifications necessary to perform the audit function.

Still another professional service, founded on the same array of skills and the same level of knowledge as audits, but not involving any explicit assurance, is the issuance of reports on “compilations” of financial statements. Again, formal standards have been promulgated in the SSARS pronouncements for the conduct of such compilations and for reports thereon. A danger of innocent reliance on the implicit representations of skill and assurances of reliability of such reports exists if they are issued by persons not having the professional qualifications that such reports imply.

Included in attest services, because of the public’s reliance, ~~are~~ ~~is an important services service~~ defined in the Statements on Standards for Attestation Engagements (SSAE), ~~examination of prospective financial information~~. The skills necessary to perform such a services ~~are~~ are at least as demanding as the level of knowledge necessary to perform the audit process.

Accordingly, this Uniform Accountancy Act ~~extends~~ includes the definition and reservation of attest and compilation services to include audits, reviews and compilations of financial statements and engagements ~~performed under the SSAEs~~ ~~the examination of prospective financial information~~ when the reports on those services are in standard form, and prescribed by authoritative pronouncements, so as to imply assurances and the professional qualifications underlying such assurances. And, because of the especially great need for public protection in connection with these services, only licensees (or individuals with practice privileges) may perform these services and must do so only through firms registered with a state board.

*Fourth*, the requirements for licensing persons to perform the professional services thus reserved should be designed to provide significant assurance that those who undertake to perform such services have at least a minimum level of professional qualification for adequate

performance. Two means are commonly employed to provide this kind of assurance of competence (not only with respect to the CPA profession, but other professions as well): (a) reserve the performance of the services in question to persons licensed to do so; and (b) require, as a condition of such licensing, demonstration of skill and knowledge, typically by means of examinations, education requirements and experience or competency requirements. Uniformity of the required demonstration of skill and competence among licensees within a given state and those of different states is obviously desirable from the public interest point of view. Nevertheless, in the interest of equity, legislatures of most jurisdictions have made provisions for "grandfathering" persons who, though they had not met the requirements for issuance of a certificate as a certified public accountant, were nonetheless engaged in unregulated attest and compilation services when the licensing law became effective. Because relatively few jurisdictions exist without "grandfathering" provisions, this Uniform Act does not include a provision for a new "grandfathered" entitlement to perform attest and compilation services. It does, however, contain provisions to deal with such a class of public accountants where the prior law established such a class.

*Fifth*, an effective regulatory plan will also prohibit persons who have not met the licensing requirements from representing to the public that they have done so, thus protecting the public against incompetence and deception. Provisions should be designed to prevent would-be practitioners from representing to the public, directly or indirectly, that they have a higher degree of competence than they in fact command.

*Sixth*, the need to assure the public of reasonable competence and the need to protect the public against deception combine to support regulation of the conduct of all licensees, even in their performance of work which unlicensed persons may also perform. If a given person has demonstrated the high level of competence required for licensure, even though the license has its central justification and purpose in the performance of attest and compilation services, nonetheless the qualifications required to be demonstrated in order to merit such a license will reasonably support public expectations that the licensee has special competence and higher professional conduct in other areas of practice as well and that the licensee adheres to a higher level of professional conduct than unlicensed persons. Such a reasonable expectation of special competence in other areas than the one for which a license is specifically required calls for regulation of the professional conduct of all licensees who promote themselves to the public as such.

*Seventh*, the need to assure the public of reasonable competence supports the requirement that all licensees maintain professional competence in their area of responsibility through continuing professional education. The provisions for such education should allow for wide latitude in selection of continuing education and should prescribe full appropriate credit for any course approved CPE offering that contributes to the general professional competence of the licensee.

*Eighth*, it is desirable that there be, to the maximum extent feasible, uniformity among jurisdictions with regard to those aspects of the regulatory structure that bear upon the qualifications required of licensees. Because many of the clients or employers of CPAs are

multistate enterprises, much of the practice of CPAs has an interstate character; consequently, CPAs must be able to move freely between states. The need for interstate mobility and maintenance of high minimum standards of competence in the public interest requires uniform licensing qualifications, insofar as possible, among the states.

*Ninth*, and finally, it is essential that mobility for individual CPAs and CPA Firms be enhanced. With respect to the goal of portability of the CPA title and mobility of CPAs across state lines, the cornerstone of the approach recommended by this Act is the standard of "substantial equivalency" set out in Section 23. Under substantial equivalency, a CPA's ability to obtain reciprocity is simplified and they have the privilege to practice in another state without the need to obtain an additional license in that state unless it is where their principal place of business is located, as determined by the licensee. Individuals are not denied reciprocity or practice privileges because of minor or immaterial differences in the requirements for CPA certification from state-to-state.

Substantial equivalency is a determination by ~~the-a~~ Board of Accountancy, or NASBA, that the education, examination and experience requirements contained in the statutes and administrative rules of another jurisdiction are comparable to, or exceed, the education, examination and experience requirements contained in the Uniform Accountancy Act. If the state of licensure does not meet the substantial equivalency standard, individual CPAs may demonstrate that they personally have education, examination and experience qualifications that are comparable to or exceed those in the Uniform Accountancy Act.

For purposes of individual practice privileges, an applicant that has an active certificate as a certified public accountant from any jurisdiction that has obtained from ~~the-a~~ Board of Accountancy or NASBA a determination of substantial equivalency with the Uniform Accountancy Act's CPA certificate requirements shall be presumed to have qualifications substantially equivalent to ~~this~~ ~~those of the practice privilege jurisdiction's~~. Individual CPAs from states that are not substantially equivalent may qualify under the substantial equivalency standard on an individual basis. Any CPA that wants to obtain a reciprocal certificate under substantial equivalency must personally possess qualifications that are substantially equivalent to, or exceed, the CPA licensure provisions in the Uniform Accountancy Act.

Additionally, CPA Firm mobility ~~would-be~~has been enhanced because even though an individual using practice privileges must render attest services through a CPA firm licensed in some state, if the firm complies with the ownership (Section 7(c)) and peer review (Section 7(h)) requirements, the firm would only need a permit in the states in which it has an office, regardless of the type of service or where such service is performed. The ownership and peer review requirements would ~~thus~~ protect the "visiting practice privilege state" through firm quality standards comparable to substantial equivalency for practice privilege individuals. For purposes of firm mobility, a firm holding a valid permit from a U.S. jurisdiction, complying with the firm ownership and peer review requirements, would be able to perform any professional service (including attest) in any other state so long as it does so through individuals with practice privileges who can lawfully do so in the state where said individuals have their principal place of

business. A firm not meeting both the ownership and peer review requirements could provide nonattest services and use the “CPA” title in any other state so long as it does so through individuals with practice privileges, and so long as the firm can lawfully do so in the state where said individuals with practice privileges have their principal place of business. Indeed, a firm complying with Section 7(a)(1)(C) would only have to obtain permits in states where it has offices.

In the interest of obtaining maximum uniformity and interstate mobility, and assuring that CPAs are subject to only one type of regulatory scheme, the Uniform Act should be the standard of regulation for certificate holders in the U.S. and its jurisdictions. All states and jurisdictions should seek to adopt the Uniform Act to provide uniformity in accountancy regulation. Uniformity will become even more essential in the future as international trade agreements continue to be adopted causing the accounting profession to adopt a global focus.

### **Implementation of the Governing Principles in the Uniform Accountancy Act**

Reflecting the fundamental principles just discussed, the following are the key features of the Uniform Act.

1. The only kinds of professional services for which licensing is required are attest services defined as (a) the audit function--the expression of opinions on financial statements; (b) the issuance of reports in standard form upon reviews of financial statements; and (c) the examination of prospective financial information and any examination, review, or agreed upon procedures engagement to be performed in accordance with the SSAE; and any engagement to be performed in accordance with the standards of the PCAOB. Licensure is also required to perform compilations of financial statements in accordance with SSARS. (See Section 3(p), defining the term “report;” and Section 14(a) prohibiting unlicensed persons or persons without practice privileges from issuing reports on audits, reviews, and compilations of financial statements.) These services are restricted to licensees under the Act. Other attestation services are not restricted to licensees, however, when licensees perform those services they are regulated by the state board of accountancy. Anyone, whether licensed or not, may offer and perform any other kind of accounting service, including tax services, management advisory services, and the preparation of financial statements as permitted under section 14(a).
2. In order to perform attest services, a CPA firm or sole practitioner must meet certification requirements (under Section 6) for individuals and permit requirements (under section 7) for firms unless otherwise exempted. The Uniform Accountancy Act involves a regulatory system in which applicants obtain and renew a license. Certain attest services may only be rendered through firms holding permits from this state. All licensees who are responsible for supervising attest or compilation services and sign or authorize someone to sign reports on financial statements on behalf of their firm must meet the competency requirements contained in professional standards before they may perform attest or compilation services. All licensees, whether in private industry, education, government, or public practice, must meet the same

continuing education requirement. Only licensed individuals may perform compilations of financial statements in accordance with SSARS, but they need not do so through a firm that holds a permit under Section 7.

3. In order to facilitate interstate practice and free movement of practitioners between states, a provision is made for reciprocal recognition of licenses issued by other states. Those individual licensees who meet the substantial equivalency standard may freely practice across state lines without the need for additional licensure. Under Section 23, they need not provide notice to the state board of the state in which they want to practice. ~~However, if a firm provides certain services through substantially equivalent individuals with practice privileges, the firm must obtain a permit from the practice privilege state.~~ In cases in which the requirements of the other state are not in compliance with the Uniform Accountancy Act and the individual does not personally meet its standard for education, the Act allows the individual to demonstrate professional experience as a substitute for the education qualifications (See Section 6(c)). Reciprocity for those CPAs who establish their principal place of business in another state requires an application process; however, upon a demonstration that the individual's qualifications for the other state's certificate were in compliance with the standards set out in this Uniform Act, a reciprocal license will be issued (Sections 6, 23).

4. The Uniform Act includes provisions that would preserve a class of "grandfathered" practitioners licensed to use the title "public accountant" and to perform the audit function, where an existing accountancy law to be superseded by the Uniform Act has provided for such licensing (Section 8), but would not provide for the creation of any new such class where it had not existed under prior law. There are a few states where the accountancy law currently in effect, though providing for the issuance of CPA certificates, does not restrict unlicensed persons from performing any sort of professional accounting service, including the audit function so long as the unlicensed persons do not trade upon the CPA title. If those states should decide to change to a form of accountancy law that restricts the compilation and attest function to licensees, like all other American jurisdictions, the recommendation implicit in this Uniform Act is that they not create any second class of licensees, "grandfathered" or other. There are some states where a provision is currently made for a second class of licensees, given exclusive right to use a particular title but not the right to perform the audit function. Because no public interest is served by such a second class of licensees, this Uniform Act contains no such provision.

5. Licensees are subject to regulation of their professional conduct in their performance of any professional service including those services for which a license is not required and regarding which, in consequence, other persons are entirely unregulated under the Act.

6. In order to prevent misleading the public regarding the qualifications or licensure status of persons who are not licensed, the Uniform Act contains a series of prohibitions on the use by unlicensed persons or firms of titles restricted to licensees under the Act, or titles misleadingly similar to such titles (see Section 14(c)-(h)).

7. The Uniform Act contemplates that, as with most accountancy laws now in effect,

responsibility for administration and implementation will be vested in a State Board of Accountancy (Section 4). The Board adopts and administers examinations and issues certificates (Sections 5 and 6); issues permits to firms (Section 7); promulgates rules that govern the conduct of licensees and that otherwise implement the Act (Section 4(h)); and has principal responsibility for disciplinary enforcement (Sections 10-13, 15) and prevention of unauthorized practice (Sections, 14, 15, 16 and 17).

8. The desirability of uniformity among jurisdictions, mentioned above as one of the fundamental principles of both the AICPA's and NASBA's legislative policies, is recognized in the Uniform Act provisions dealing with such matters as examinations, education and experience requirements for the initial granting of a certificate (Section 5), and the continuing professional education requirements for the renewal of certificates (Section 6). As mentioned in the comments following several of these provisions, they are framed in a substantially more detailed fashion than might otherwise be expected (dealing with matters that might often be addressed by regulation rather than statute) in order to encourage uniformity among the various states.

9. The proposal for regulatory change which is included in this Act seeks to accomplish the broad objectives of mobility and uniformity and public protection within today's state-based regulatory model. It includes implementation of a "substantial equivalency" standard to simplify reciprocity and to provide a "no notice, no fee, and no escape" approach for granting practice privileges across state lines for CPAs and CPA firms from states meeting UAA standards as well as for CPAs who individually meet UAA standards.

## **Uniform Accountancy Act**

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3

4 **SECTION 1**

5 **TITLE**

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**This Act may be cited as the “Accountancy Act of 20 .”**

1      **SECTION 2**  
2      **PURPOSE**  
3

4      It is the policy of this State, and the purpose of this Act, to promote the reliability of  
5      information that is used for guidance in financial transactions or for accounting for or  
6      assessing the financial status or performance of commercial, noncommercial, and  
7      governmental enterprises. The public interest requires that persons professing special  
8      competence in accountancy or offering assurance as to the reliability or fairness of  
9      presentation of such information shall have demonstrated their qualifications to do so, and  
10     that persons who have not demonstrated and maintained such qualifications, not be  
11     permitted to represent themselves as having such special competence or to offer such  
12     assurance; that the conduct of persons licensed as having special competence in  
13     accountancy be regulated in all aspects of their professional work; that a public authority  
14     competent to prescribe and assess the qualifications and to regulate the conduct of licensees  
15     be established; and that the use of titles that have a capacity or tendency to deceive the  
16     public as to the status or competence of the persons using such titles be prohibited.  
17

18     *COMMENT:* This statement of legislative purposes reflects the fundamental principles  
19     governing the regulation of holders of certificates as certified public accountants.

1   **SECTION 3**  
2   **DEFINITIONS**  
3

4   **When used in this Act, the following terms have the meanings indicated:**  
5

6   **(a) "AICPA"** means the American Institute of Certified Public Accountants.  
7

8   **(b) "Attest"** means providing the following services:  
9

10   **(1) any audit or other engagement to be performed in accordance with the  
11       Statements on Auditing Standards (SAS);**  
12

13   **(2) any review of a financial statement to be performed in accordance with the  
14       Statements on Standards for Accounting and Review Services (SSARS);**  
15

16   **(3) any examination of prospective financial information to be performed in  
17       accordance with the Statements on Standards for Attestation Engagements  
18       (SSAE);**  
19

20   **(4) any engagement to be performed in accordance with the standards of the  
21       PCAOB; and**  
22

23   **(5) any examination, review, or agreed upon procedures engagement to be  
24       performed in accordance with the SSAE, other than an examination described  
25       in subsection (3).**

26  
27   **The standards specified in this definition shall be adopted by reference by the  
28       Board pursuant to rulemaking and shall be those developed for general  
29       application by recognized national accountancy organizations, such as the  
30       AICPA, and the PCAOB.**

31  
32   *COMMENT:* Subject to the exceptions set out in Sections 7, 14, and 23(a)(4), these services are  
33   restricted to licensees and CPA firms under the Act and licensees can only perform the attest  
34   services through a CPA firm. Individual licensees may perform the services described in Section  
35   3(f) as employees of firms that do not hold a permit under Section 7 of this Act, so long as they  
36   comply with the peer review requirements of Section 6(j). Other professional services are not  
37   restricted to licensees or CPA firms; however, when licensees perform those services they are  
38   regulated by the state board of accountancy. See also the definition of Report. The definition  
39   also includes references to the Public Company Accounting Oversight Board (PCAOB) which  
40   make it clear that the PCAOB is a regulatory authority that sets professional standards applicable  
41   to engagements within its jurisdiction.

42  
43   Regarding SSAE engagements, subsections 3(b)(3) and (5) include SSAE engagements  
44   pertaining to the examination of prospective financial information, as well as other SSAE  
45   engagements. Thus, like other services included in this definition of "attest," they are all  
46   restricted to licensees and CPA firms. Although these respective services have been bifurcated

1 in the definition of “attest,” only CPAs can provide the services, and they must do so only  
2 through firms that either have a permit or comply with Section 7(a)(1)(C).

3  
4 This definition of “attest” includes both examinations of prospective financial information to be  
5 performed in accordance with the Statements on Standards for Attestation Engagements (SSAE)  
6 as well as “any examination, review, or agreed upon procedures engagement, to be performed in  
7 accordance with SSAE.”

8  
9 **(c) “Board” means the \_\_\_\_\_ Board of Accountancy established under Section 4 of  
10 this Act or its predecessor under prior law.**

11  
12 *COMMENT:* The general purpose of references to prior law, in this provision and others below,  
13 is to assure maximum continuity in the regulatory system, except where particular changes are  
14 specifically intended to be brought about by amendment of the law.

15  
16 **(d) “Certificate” means a certificate as “certified public accountant” issued under  
17 Section 6 of this Act or corresponding provisions of prior law, or a corresponding  
18 certificate as certified public accountant issued after examination under the law of  
19 any other state.**

20  
21 *COMMENT:* The term here defined is used in section 3(n), defining the term “peer review”;  
22 section 4(a), regarding the composition of the Board of Accountancy; section 4(h)(6), regarding  
23 Board rules governing use of the titles “certified public accountant” and “CPA”; section 10(a),  
24 regarding enforcement proceedings; and section 14(c), prohibiting use of the titles “certified  
25 public accountant” and “CPA” by persons not holding certificates.

26 In a few states the law allows for the issuance of “certificates” to certain practitioners who have  
27 not passed the examination ordinarily required (and provided for by section 5 of this Uniform  
28 Act). The definition of the term “certificate,” insofar as it has reference to those issued by other  
29 states, excludes any certificate for which an examination was not required.

30  
31 **(e) “Client” means a person or entity that agrees with a licensee or licensee's employer  
32 to receive any professional service.**

33  
34 *COMMENT:* This term is used in a number of Sections throughout this Act including the  
35 provisions related to acceptance of commissions and contingent fees, client records and  
36 confidential communications. For that reason it is useful to include a definition of the term.

37  
38 **(f) (1) "Compilation" means providing a service of any compilation engagment to be  
39 performed in accordance with Statements on Standards for Accounting and Review  
40 Services (SSARS) ~~that is presenting in the form of financial statements, information~~  
41 ~~that is the representation of management (owners) without undertaking to express~~  
42 ~~any assurance on the statements.~~**

1  
2       **(2) “Preparation of Financial Statements” means providing a service of any**  
3       **preparation of financial statements engagement to be performed in accordance with**  
4       **Statements on Standards for Accounting and Review Services (SSARS).**

5  
6       **(g) “CPA Firm” means a sole proprietorship, a corporation, a partnership or any other**  
7       **form of organization issued a permit under Section 7 of this Act.**

8  
9       *COMMENT:* This defined term is used in section 7, on permits to practice for firms, in such a  
10 way as to allow the Uniform Act, unlike some accountancy laws now in effect, to treat both  
11 partnerships and corporations in a single provision rather than in two separate but parallel  
12 provisions for the two different forms of organization. It is also used in section 12(j), on rights  
13 of appeal from an adverse Board decision in an enforcement proceeding; section 14(a),  
14 prohibiting issuance of reports on financial statements or attest services by unlicensed persons  
15 and firms; 14(d), (f), (g) and (h), regarding use of certain titles by unlicensed persons and firms;  
16 section 14(i), regarding misleading firm names; and section 14(j), defining certain rights of  
17 foreign licensees to serve foreign clients. The definition of “firm” is designed to be broad  
18 enough to include any type of business entity or combination of business entities, recognized by  
19 the state.  
20

21  
22 Inclusion of sole proprietorships in the definition of the term “firm” has the effect of requiring  
23 sole practitioners to secure both individual certificates under section 6 and firm permits to  
24 practice under section 7. This will assure that all practice units have firm permits. The Board  
25 would have the power to alleviate the burden of duplicate applications (where the same person  
26 must secure both an individual certificate and a firm permit) by providing for joint application  
27 forms.  
28

29       **(h) “License” means a certificate issued under Section 6 of this Act, a permit issued**  
30       **under Section 7 or a registration under Section 8; or, in each case, a certificate or**  
31       **permit issued under corresponding provisions of prior law.**

32  
33       *COMMENT:* See commentary to Section 3(i) below.  
34

35       **(i) “Licensee” means the holder of a license as defined in Section 3(h).**  
36

37       *COMMENT:* This term is intended simply to allow for briefer references in provisions that  
38 apply to holders of certificates, holders of permits and holders of registrations: See Section 4(h),  
39 regarding rules to be promulgated by the Board of Accountancy; Section 5(b), regarding the  
40 meaning of “good moral character” in relation to the professional responsibility of a licensee;  
41 Sections 11(c) and (d), regarding Board investigations; Sections 12(a)-(c), (i), and (k), relating to  
42 hearings by the Board; Section 18, relating to confidential communications; and Sections 19(a)  
43 and (b), regarding licensees’ working papers and clients’ records. Pursuant to Section 14(p),  
44 individuals and firms using practice privileges in this State are treated as “Licensees” for

1 purposes of other requirements and restrictions in Section 14.  
2

3       **(j) "Manager" means a manager of a limited liability company.**  
4

5       **(k) "Member" means a member of a limited liability company.**  
6

7       *COMMENT:* The two defined terms "manager" and "member" assume that the state has adopted  
8 a limited liability company law, and that these terms are used in that law. If this is not the case,  
9 then these terms should not be included in the Act, either here, or in the substantive provisions of  
10 the Act: Sections 7(c), 7(f), 12(c), 14(h), 14(i), 19(a). The point is an important one, since the  
11 two terms are in general use in circumstances where their meaning is different from what is  
12 intended here.  
13

14       **(l) "NASBA" means the National Association of State Boards of Accountancy.**  
15

16       **(m) "PCAOB" means the Public Company Accounting Oversight Board.**  
17

18       **(n) "Peer Review" means a study, appraisal, or review of one or more aspects of the**  
19 **professional work of a certificate holder or CPA firm that issues attest or**  
20 **compilation reports, by a person or persons who hold certificates and who are not**  
21 **affiliated with the certificate holder or CPA firm being reviewed.**  
22

23       *COMMENT:* This defined term is employed in section 4(h)(7), which empowers the Board to  
24 issue rules prescribing how such reviews are to be performed; section 7(h), contemplating such  
25 reviews in connection with renewals of firm permits; section 10(b)(1), specifying that such  
26 reviews are available as remedies in enforcement proceedings; section 13(c), providing that the  
27 Board may require such reviews as a condition of reinstatement after a suspension or revocation  
28 of a certificate or permit; and section 18, on confidential communications, which recognizes an  
29 exception for peer review. The rules issued by the Board under section 4(h)(7) would  
30 presumably prescribe, among other things, how the requirement of independence, or non-  
31 affiliation, of the reviewer to the person or firm being reviewed is to be implemented. See also  
32 Sections 6(j), 14(k) and 14(l) with regard to certificate holders who perform compilations other  
33 than through a CPA firm.  
34

35       **(o) "Permit" means a permit to practice as a CPA firm issued under Section 7 of this**  
36 **Act or corresponding provisions of prior law or under corresponding provisions of**  
37 **the laws of other states.**  
38

39       **(p) "Principal place of business" means the office location designated by the licensee for**  
40 **purposes of substantial equivalency and reciprocity.**  
41

42       *COMMENT:* "Principal place of business" has been defined to assure consistency in the use of  
43 that term. Under substantial equivalency, a licensee must obtain a certificate from the state  
44 board in the state where the licensee has an office and establishes it as the principal place of

1 business. Because states have adopted more than one statutory definition of “principal place of  
2 business,” both AICPA and NASBA agree that the simple definition above will not only enhance  
3 mobility, but also be easier to implement and enforce.

4

5 **(q) “Professional” means arising out of or related to the specialized knowledge or**  
6 **skills associated with CPAs.**

7

8 **(r) “Report,” when used with reference to any attest or compilation service, means an**  
9 **opinion, report, or other form of language that states or implies assurance as to the**  
10 **reliability of the attested information or compiled financial statements and that also**  
11 **includes or is accompanied by any statement or implication that the person or firm**  
12 **issuing it has special knowledge or competence in accounting or auditing. Such a**  
13 **statement or implication of special knowledge or competence may arise from use by**  
14 **the issuer of the report of names or titles indicating that the person or firm is an**  
15 **accountant or auditor, or from the language of the report itself. The term “report”**  
16 **includes any form of language which disclaims an opinion when such form of**  
17 **language is conventionally understood to imply any positive assurance as to the**  
18 **reliability of the attested information or compiled financial statements referred to**  
19 **and/or special competence on the part of the person or firm issuing such language;**  
20 **and it includes any other form of language that is conventionally understood to**  
21 **imply such assurance and/or such special knowledge or competence.**

22

23 *COMMENT:* As has been explained in the introductory comments, the audit function, which this  
24 term is intended to define, is the principal kind of professional accounting service for which a  
25 license would be required under the Uniform Act. The term has its most important operative use  
26 in Section 14(a) of the Act, which prohibits persons not licensed from performing that function  
27 as well as any attest or compilation services as defined above.

28

29 It is a point of fundamental significance that the audit function is defined, not in terms of the  
30 work actually done, but rather in terms of the issuance of an opinion or a report--that is, the  
31 making of assertions, explicit or implied--about work that has been done. It is such reports, or  
32 assertions, upon which persons using attested information (whether clients or third parties) rely,  
33 reliance being invited by the assertion, whether explicit or by implication, of expertise on the  
34 part of the person or firm issuing the opinion or report. Thus, this definition is sought to be  
35 drawn broadly enough to encompass all those cases where either the language of the report itself,  
36 or other language accompanying the report, carries both a positive assurance regarding the  
37 reliability of the information in question, and an implication (which may be drawn from the  
38 language of the report itself) that the person or firm issuing the report has special competence  
39 which gives substance to the assurance.

40

41 The definition includes disclaimers of opinion when they are phrased in a fashion which is  
42 conventionally understood as implying some positive assurance, because authoritative  
43 accounting literature contemplates several circumstances in which a disclaimer of opinion in  
44 standard form implies just such assurances. The same reasoning that makes it appropriate to

1 include disclaimers of opinion in conventional form within the definition of this term makes it  
2 appropriate to apply the prohibition on the issuance by unlicensed persons of reports, as so  
3 defined, on “reviews” and “compilations” and other communications with respect to  
4 “compilations” within the meaning of the AICPA’s Statements on Standards for Accounting and  
5 Review Services (SSARS), when the language in which the report or other compilation  
6 communication is phrased is that prescribed by SSARS or any report that is prescribed by the  
7 AICPA’s Statements on Standards for Attestation Engagements (SSAE). This is done in Section  
8 14(a). These prohibitions, again, do not apply to the services actually performed--which is to say  
9 that there is no prohibition on the performance by unlicensed persons of either reviews or  
10 compilations, in the sense contemplated by SSARS, but only on the issuance of reports or other  
11 compilation communications asserting or implying that their author has complied or will comply  
12 with the SSARS standards for such reviews and compilations and has the demonstrated  
13 capabilities so to comply.

14

15 (s) **“Rule” means any rule, regulation, or other written directive of general application**  
16 **duly adopted by the Board.**

17

18 (t) **“State” means any state of the United States, the District of Columbia, Puerto Rico,**  
19 **the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, and**  
20 **Guam; except that “this State” means the State of \_\_\_\_\_.**

21

22 (u) **“Substantial Equivalency” is a determination by the bBoard of aAccountancy or its**  
23 **designee that the education, examination and experience requirements contained in**  
24 **the statutes and administrative rules of another jurisdiction are comparable to, or**  
25 **exceed the education, examination and experience requirements contained in the**  
26 **Uniform Accountancy Act or that an individual CPA’s education, examination and**  
27 **experience qualifications are comparable to or exceed the education, examination and**  
28 **experience requirements contained in the Uniform Accountancy Act. In**  
29 **ascertaining substantial equivalency as used in this act the Board shall take into**  
30 **account the qualifications without regard to the sequence in which experience,**  
31 **education, or examination requirements were attained.**

32

33 **COMMENT:** For purposes of practice privileges, an applicant that has an active certificate as a  
34 certified public accountant from any jurisdiction that has obtained from the Board of  
35 Accountancy or NASBA a determination of substantial equivalency with the Uniform  
36 Accountancy Act’s CPA licensure requirements shall be presumed to have qualifications  
37 substantially equivalent to those of this jurisdiction<sup>2</sup>s. An individual who has obtained from the  
38 Board of Accountancy or NASBA a determination of substantial equivalency with the Uniform  
39 Accountancy Act’s CPA licensure requirements shall be entitled to reciprocity under the  
40 substantial equivalency standard.

1      **SECTION 4**  
2      **STATE BOARD OF ACCOUNTANCY**

3  
4      (a) There is hereby created the \_\_\_\_\_ Board of Accountancy, which shall have  
5      responsibility for the administration and enforcement of this Act. The Board shall  
6      consist of \_\_\_ members, appointed by the Governor, all of whom shall be residents  
7      of this State. At least [a majority plus one] of such members shall be holders of  
8      currently valid certificates issued under Section 6 of this Act or corresponding  
9      provisions of prior law; and any members of the Board not having such  
10     qualifications shall have had professional or practical experience in the use of  
11     accounting services and financial statements, so as to be qualified to make  
12     judgments about the qualifications and conduct of persons and firms subject to  
13     regulation under this Act. The term of each member of the Board shall be \_\_\_ years,  
14     the term of each to be designated by the Governor. [Alternatively: except that  
15     members of the \_\_\_\_\_ Board of Accountancy appointed and serving as such  
16     under prior law at the effective date of this Act shall serve out the terms for which  
17     they were appointed, as members of the Board created by this Section.] Vacancies  
18     occurring during a term shall be filled by appointment by the Governor for the  
19     unexpired term. Upon the expiration of the member's term of office, a member shall  
20     continue to serve until a successor shall have been appointed and taken office. Any  
21     member of the Board whose certificate under Section 6 of this Act is revoked or  
22     suspended shall automatically cease to be a member of the Board, and the Governor  
23     may, after a hearing, remove any member of the Board for neglect of duty or other  
24     just cause. No person who has served two successive complete terms shall be eligible  
25     for reappointment, but appointment to fill an unexpired term shall not be  
26     considered a complete term for this purpose.

27  
28     *COMMENT:* A number of decisions have to be made with regard to the structure and  
29     composition of licensing bodies such as sState bBoards of accountancy, and these decisions  
30     will vary from state to state according to the patterns prevailing in the different states with  
31     respect to other licensing Boards. This provision of the Uniform Act is intended to identify the  
32     principal decision points and to suggest, on the basis of general experience, what seem to be the  
33     preferable solutions.

34  
35     As With respects to the number of Board members, it is suggested that the appropriate range is  
36     from five to nine, and that the number should be an odd one, so as to minimize the likelihood of  
37     tie votes.

38  
39     This provision assumes that, as is ever more widely the case, one or more members of the Board  
40     will be other than licensees (sometimes called "public" members). It also reflects the view that,  
41     in light of the technical nature of much of the Board's responsibilities, it is desirable that an  
42     effective majority of the Board be certificate holders: This would be achieved by the requirement  
43     that one more than a majority of the Board be certificate holders. As respects to the terms of  
44     Board members, it is desirable that the terms be staggered; that they be long enough to allow  
45     effective service, though not so long that a Board member who proves ineffective remains in  
46     office any longer than necessary; and that they be renewable, but that there be a limit on the

1 number of times they may be renewed. This provision reflects the view that the length of the  
2 term should be four years rather than three years, as is now more commonly the case. Although  
3 there seems to be an increasing trend toward not reappointing Board members for a second term,  
4 it takes any new Board member some time in office before he is fully effective. A somewhat  
5 longer term seems an appropriate way of balancing these two considerations.

6

7 (b) The Board shall elect annually from among its members a ~~chairman~~ Chair and such  
8 other officers as the Board may determine to be appropriate. The Board shall meet  
9 at such times and places as may be fixed by the Board. Meetings of the Board shall  
10 be open to the public except insofar as they are concerned with investigations under  
11 Section 11 of this Act and except as may be necessary to protect information that is  
12 required to be kept confidential by Board rules or by the laws of this State. A  
13 majority of the Board members then in office shall constitute a quorum at any  
14 meeting duly called. The Board shall have a seal which shall be judicially noticed.  
15 The Board shall retain or arrange for the retention of all applications and all  
16 documents under oath that are filed with the Board and also records of its  
17 proceedings, and it shall maintain a registry of the names and addresses of all  
18 licensees under this Act. In any proceeding in court, civil or criminal, arising out of  
19 or founded upon any provision of this Act, copies of any of said records certified as  
20 true copies under the seal of the Board shall be admissible in evidence as tending to  
21 prove the contents of said records.

22

23 *COMMENT:* This subsection, like the preceding one, presents a number of decision points that  
24 may vary according to state practice, and it includes some provisions (notably the ones regarding  
25 open meetings and confidential information) that may be unnecessary in the accountancy law  
26 because they are covered by state laws of general application. Subject to such variances, the  
27 provisions recommended appear to be desirable ones in the light of general experience.

28

29 (c) Each member of the Board shall be paid an amount established by law for each day  
30 or portion thereof spent in the discharge of the member's official duties and shall be  
31 reimbursed for the member's actual and necessary expenses incurred in the  
32 discharge of the member's official duties.

33

34 (d) All moneys collected by the Board from fees authorized to be charged by this Act  
35 shall be received and accounted for by the Board and shall be deposited in the State  
36 Treasury to the credit of the Board. Appropriation shall be made for the expenses of  
37 administering the provisions of this Act, which may include, but shall not be limited  
38 to, the costs of conducting investigations and of taking testimony and procuring the  
39 attendance of witnesses before the Board or its committees; all legal proceedings  
40 taken under this Act for the enforcement thereof; and educational programs for the  
41 benefit of the public and licensees and their employees.

42

43 *COMMENT:* A provision of this kind, effectively providing that at least a substantial portion of  
44 the revenues raised from fees required to be paid by applicants and licensees will be applied to

1 defraying the expenses of administering the law, has proved a desirable one in those jurisdictions  
2 where the statute contains such a provision. The typical pattern is that the regulation of public  
3 accountancy is, from the state's point of view, self-supporting. The extent to which the Board has  
4 adequate staff to assist it (as provided in subsection (f) below) and other resources necessary to  
5 do its job effectively may well depend on the extent to which such revenues are available for use  
6 in the administration of the Act.

7

8 (e) **The Board shall file an annual report of its activities with the Governor and the**  
9 **legislature, which report shall include a statement of all receipts and disbursements**  
10 **and a listing of all current licensees under this Act. The Board shall mail a copy of**  
11 **the annual report to any person requesting it and paying a reasonable charge**  
12 **therefor.**

13

14 (f) **The Board may employ an executive director and such other personnel as it deems**  
15 **necessary in its administration and enforcement of this Act. It may appoint such**  
16 **committees or persons, to advise or assist it in such administration and enforcement,**  
17 **as it may see fit. It may retain its own counsel to advise and assist it in addition to**  
18 **such advice and assistance as is provided by the Attorney General of this State.**

19

20 *COMMENT:* Adequate staffing can be an important determinant of how effective a Board of  
21 Accountancy is in discharging its statutory obligations. The same is true of the ability of a Board  
22 to employ independent counsel from time to time for special purposes, in addition to the counsel  
23 normally provided to it by the state attorney general's office. With regard to the financing  
24 necessary to implement such provisions, see the comment following subsection (d).

25

26 An additional way for a Board to increase its effectiveness, which does not involve significant  
27 expense, is the appointment of committees or individuals not on the Board or its staff, to advise  
28 and assist it in various ways, including disciplinary investigations (see section 11(b)).

29

30 (g)(1) **The Board shall have the power to take all action that is necessary and proper to**  
31 **effectuate the purposes of this Act, including the power to sue and be sued in its**  
32 **official name as an agency of this State. The Board shall also have the power to**  
33 **issue subpoenas to compel the attendance of witnesses and the production of**  
34 **documents; to administer oaths; to take testimony, to cooperate with the PCAOB**  
35 **and the appropriate state and federal regulatory authorities having jurisdiction over**  
36 **the professional conduct in question in investigation and enforcement concerning**  
37 **violations of this Act and comparable acts of other states; to cooperate in**  
38 **enforcement with appropriate foreign regulatory authorities in instances which**  
39 **have or may result in criminal conviction, loss of license or suspension,**  
40 **admonishment or censure; and to receive evidence concerning all matters within the**  
41 **scope of this Act. In case of disobedience of a subpoena, the Board may invoke the**  
42 **aid of any court or other appropriate regulatory authority in requiring the**  
43 **attendance and testimony of witnesses and the production of documentary evidence.**  
44 **For purposes of this subsection, "appropriate foreign regulatory authorities" shall**

1           be those foreign authorities granting substantially equivalent foreign designations in  
2           accordance with Section 6(g) of this Act.

3  
4       **(2) The Board, its members, and its agents shall be immune from personal liability for**  
5           **actions taken in good faith in the discharge of the Board's responsibilities, and the**  
6           **State shall hold the Board, its members, and its agents harmless from all costs,**  
7           **damages, and attorneys' fees arising from claims and suits against them with**  
8           **respect to matters to which such immunity applies.**

9  
10          *COMMENT:* In many accountancy laws now in effect, the provisions regarding subpoenas and  
11           testimony that are included in this paragraph dealing with Board powers generally are found  
12           instead in the section dealing with hearings, which is section 12 in this Uniform Act, or are  
13           specified in the state's administrative procedure act. Subsection 4(g)(1) has been strengthened to  
14           facilitate greater multistate enforcement cooperation.

15  
16       **(h) The Board may adopt rules governing its administration and enforcement of this**  
17           **Act and the conduct of licensees, including but not limited to--**

- 18  
19           **(1) Rules governing the Board's meetings and the conduct of its business;**  
20  
21           **(2) Rules of procedure governing the conduct of investigations and hearings by**  
22           **the Board;**  
23  
24           **(3) Rules specifying the educational and experience qualifications required for**  
25           **the issuance of certificates under Section 6 of this Act and the continuing**  
26           **professional education required for renewal of certificates under Section 6;**  
27  
28           **(4) Rules of professional conduct directed to controlling the quality and probity**  
29           **of services by licensees, and dealing among other things with independence,**  
30           **integrity, and objectivity; competence and technical standards;**  
31           **responsibilities to the public; and responsibilities to clients;**  
32  
33           **(5) Rules governing the professional standards applicable to licensees;**  
34  
35           **(6) Rules governing the manner and circumstances of use of the titles "certified**  
36           **public accountant" and "CPA";**  
37  
38           **(7) Rules regarding peer review that may be required to be performed under**  
39           **provisions of this Act;**  
40  
41           **(8) Rules on substantial equivalence to implement Section 23; and**  
42  
43           **(9) Such other rules as the Board may deem necessary or appropriate for**

**implementing the provisions and the purposes of this Act.**

*COMMENT:* See the comment following section 3(n) regarding paragraph (7). Some states may have laws requiring that state boards expressly adopt by reference the applicable professional standards.

- (i) At least 60 days prior to the proposed effective date of any rule or amendment thereto under subsection (h) of this Section or any other provision of this Act, the Board shall publish notice of such proposed action and of a public hearing to be held no more than 30 days prior to such effective date, in [the State Register or equivalent official publication].

*COMMENT:* The provision for publication of proposed rules and amendments thereto in an official state register, and for public hearings thereon, may be covered in some states by a state statute of general application, such as an Administrative Procedures Act; but where this is not the case, it appears a desirable provision for a state accountancy law. Some existing laws also have a provision requiring separate notice by mail to all licensees of any proposed rule or amendment; but, no such provision is included here because the expense of notice by mail seems unjustified when adequate notice by publication is available.

- (j) Records, papers, and other documents containing information collected or compiled by the Board, its members, employees, contractors or agents, including its legal counsel, as a result of a complaint, investigation, inquiry, or interview in connection with an application for examination, certification, or registration, or in connection with a licensee's professional ethics and conduct, shall not be considered public records within the meaning of this State's public records laws. Additionally, any record, paper, or other document received by the Board as a result of a self-reporting requirement shall not be considered public records within the meaning of this State's public records laws. When any such record, paper, or other document is admitted into evidence in a hearing held by the Board, it shall then be a public record within the meaning of this State's public records laws. However, upon a showing of good cause, the presiding officer at such a hearing may order that confidential or privileged information be redacted or admitted under seal.

- (1) Notwithstanding any other provision of this ~~a~~Act, information protected by this confidentiality provision shall not be disclosed to other authorities unless the recipient confirms in writing that it will assure preservation of confidentiality and the licensee has been given reasonable notice that the information will be provided to another entity.
  - (2) Notwithstanding any contrary provision in the State's Public Records law, disclosures to law enforcement and regulatory authorities and, only to the extent deemed necessary to conduct an investigation, to the subject of the investigation, persons whose complaints are being investigated and witnesses

**questioned in the course of investigation, as provided in Section 11(b), shall not be considered public disclosures and shall not deprive such records of their confidential status.**

- (3) Nothing in this subsection shall be construed as a waiver of any privilege, such as attorney-client privilege, which may also apply to any records covered by this subsection.
  - (4) Nothing in this subsection shall confer confidential status on any record collected under this subsection which was a public record when collected or thereafter becomes a public record through other lawful means.

1           **SECTION 5**  
2           **QUALIFICATIONS FOR A CERTIFICATE AS A CERTIFIED PUBLIC**  
3           **ACCOUNTANT**

- 5           **(a) The certificate of “certified public accountant” shall be granted to persons of good**  
6           **moral character who meet the education, experience and examination requirements**  
7           **of the following subsections of this Section and rules adopted thereunder and who**  
8           **make application therefor pursuant to Section 6 of this Act.**

10          *COMMENT:* As mentioned in the introductory comments, this Uniform Act, like many  
11 accountancy laws now in effect, involves a licensure system that eliminates questions as to who  
12 may use the CPA title. All individuals who wish to use the CPA title in a state must have a  
13 certificate from that state or have practice privileges pursuant to Section 23.

15          It may be noted that this provision contemplates that there will be no certificate requirements  
16 with respect to citizenship, age, or residency. A citizenship requirement would not be  
17 constitutional; in view of the education requirement, a separate age requirement seems without  
18 utility; and in light of the desirability, explained in the introductory comments, of achieving  
19 maximum uniformity and reciprocity among the various states, a residency requirement seems  
20 not merely useless but counterproductive.

- 22          **(b) Good moral character for purposes of this Section means the propensity to provide**  
23          **professional services in a fair, honest, and open manner. The Board may refuse to**  
24          **grant a certificate on the ground of failure to satisfy this requirement only if there is**  
25          **a substantial connection between the lack of good moral character of the applicant**  
26          **and the professional responsibilities of a licensee and if the finding by the Board of**  
27          **lack of good moral character is supported by clear and convincing evidence. When**  
28          **an applicant is found to be unqualified for a certificate because of a lack of good**  
29          **moral character, the Board shall furnish the applicant [a] statement containing the**  
30          **findings of the Board, a complete record of the evidence upon which the**  
31          **determination was based, and a notice of the applicant’s right of appeal.**

33          *COMMENT:* The precise meaning of a “good moral character” is difficult to prescribe, but the  
34 definition offered in this section has been understood and sustained by courts. This provision is  
35 intended both to assure that the requirement of good moral character will be narrowly and  
36 precisely construed, avoiding problems of both vagueness and over breadth and to assure  
37 procedural fairness in any instance where a certificate is denied on the basis of lack of good  
38 moral character. The right of appeal referred to would presumably be prescribed by a statute of  
39 general application, such as an Administrative Procedures Act.

- 41          **(c) The education requirement for a certificate, which must be met before an applicant**  
42          **is eligible to apply for the examination prescribed in subsection (d), shall be as**  
43          **follows:**

- 1           **(4) During the five year period immediately following the effective date of this**  
2           **Act, a baccalaureate degree or its equivalent conferred by a college or**  
3           **university acceptable to the Board, with an accounting concentration or**  
4           **equivalent as determined by Board rule to be appropriate;**
- 5
- 6           **(21) After the expiration of the five year period immediately following the effective**  
7           **date of this Act, at least 150 semester hours of college education including a**  
8           **baccalaureate or higher degree conferred by a college or university acceptable**  
9           **to the Board, the total educational program to include an accounting**  
10          **concentration or equivalent as determined by Board rule to be appropriate.**

12          *COMMENT:* Paragraph (2) of this provision would, after the lapse of the specified number of  
13 years, put into effect a 150-hour education requirement. The report of the Commission on  
14 Professional Accounting Education (issued in August 1983) sets out the considerations that  
15 underlie the policies of both the AICPA and NASBA favoring establishment of such a  
16 requirement.

17          **(d) The examination required to be passed as a condition for the granting of a**  
18          **certificate shall be held regularly throughout the year, and shall test the applicant's**  
19          **knowledge of the subjects of accounting and auditing, and such other related**  
20          **subjects as the Board may specify by rule, including but not limited to business law**  
21          **and taxation. The Board shall prescribe by rule the methods of applying for and**  
22          **conducting the examination, including methods for grading and determining a**  
23          **passing grade required of an applicant for a certificate provided, however, that the**  
24          **Board shall to the extent possible see to it that the examination itself, grading of the**  
25          **examination, and the passing grades, are uniform with those applicable in all other**  
26          **states. The Board may make such use of all or any part of the Uniform Certified**  
27          **Public Accountant Examination and Advisory Grading Service of the American**  
28          **Institute of Certified Public Accountants and may contract with third parties to**  
29          **perform such administrative services with respect to the examination as it deems**  
30          **appropriate to assist it in performing its duties hereunder.**

32

33          *COMMENT:* The Uniform Certified Public Accountant Examination and Advisory Grading  
34 Service, referred to in this provision, has for some years been consistently used by the Board of  
35 Accountancy (or its equivalent) of every American jurisdiction. Although the grading provided  
36 by that service is, as the name implies, only advisory, with each state Board retaining ultimate  
37 authority to determine grades and passing requirements, it is obvious that uniformity among  
38 jurisdictions in these matters is a matter of considerable importance. Uniformity respecting the  
39 examination is essential to ensuring interstate mobility for the certificate holders of this state.  
40 Provisions related to conditioning are set out in the Uniform Accountancy Act Rules.

41

42          **(e) The Board may charge, or provide for a third party administering the examination**  
43          **to charge, each applicant a fee, in an amount prescribed by the Board by rule.**

1       (f) An applicant for initial issuance of a certificate under this Section shall show that  
2           the applicant has had one year of experience. This experience shall include  
3           providing any type of service or advice involving the use of accounting, attest,  
4           compilation, management advisory, financial advisory, tax or consulting skills all of  
5           which was verified by a licensee, meeting requirements prescribed by the Board by  
6           rule. This experience would be acceptable if it was gained through employment in  
7           government, industry, academia or public practice.

8

9       *COMMENT:* Before an applicant may obtain a certificate, the applicant must obtain actual  
10      experience; however, that experience can be obtained in any area of employment involving the  
11      use of accounting or business skills. In addition, experience should be acceptable whether it is  
12      gained through employment in government, industry, academia or public practice. The  
13      experience may be supervised by a non-licensee but must be verified by a licensee.

1           **SECTION 6**  
2           **ISSUANCE AND RENEWAL OF CERTIFICATES, AND MAINTENANCE OF**  
3           **COMPETENCY**

4  
5           (a)     The Board shall grant or renew certificates to persons who make application and  
6           demonstrate (1) that their qualifications, including where applicable the  
7           qualifications prescribed by Section 5, are in accordance with the following  
8           subsections of this Section or (2) that they are eligible under the substantial  
9           equivalency standard set out in Section 23(a)(2) of the Act which requires licensure  
10          for those CPAs that establish their principal place of business in another state. The  
11          holder of a certificate issued under this Section may only provide attest services, as  
12          defined, in a CPA firm that holds a permit issued under Section 7 of this Act.

13  
14        *COMMENT:* Section 5 sets out the requirements for initial issuance of a certificate; this section  
15        provides for the process of application for the initial certificate, as well as for renewal of  
16        certificates. It also outlines the process for the issuance of reciprocal certificates for applicants  
17        that do not meet the substantial equivalency standard. Applicants that meet the substantial  
18        equivalency standard set out in Section 23 receive reciprocity upon complying with the  
19        application procedure in Section 6(c)(2). This section also makes it clear that certificate holders  
20        may only provide attest services in licensed firms.

21  
22        (b)     Certificates shall be initially issued, and renewed, for periods of not more than three  
23        years but in any event shall expire on the [specified date] following issuance or  
24        renewal. Applications for such certificates shall be made in such form, and in the  
25        case of applications for renewal, between such dates, as the Board shall by rule  
26        specify, and the Board shall grant or deny any such application no later than  
27        \_\_\_\_\_ days after the application is filed in proper form. In any case where the  
28        applicant seeks the opportunity to show that issuance or renewal of a certificate was  
29        mistakenly denied, or where the Board is not able to determine whether it should be  
30        granted or denied, the Board may issue to the applicant a provisional certificate,  
31        which shall expire ninety days after its issuance or when the Board determines  
32        whether or not to issue or renew the certificate for which application was made,  
33        whichever shall first occur.

34  
35        *COMMENT:* This provision reflects the pattern of some laws now in effect in contemplating a  
36        biennial or triennial rather than an annual renewal. The purpose of this is to make it possible to  
37        tie the renewal period to the period for completion of the maintenance of competency  
38        requirements, as provided by subsection (d) below.

39  
40        (c)(1) With regard to applicants that do not qualify for reciprocity under the substantial  
41        equivalency standard set out in Section 23(a)(2) of this Act, the Board shall issue a  
42        certificate to a holder of a certificate, license, or permit issued by another state upon  
43        a showing that:

- 44  
45           (A) The applicant passed the uniform CPA examination;  
46           (B) The applicant had four years of experience of the type described in Section 5(f)  
47           or meets comparable requirements prescribed by the Board by rule, after

passing the examination upon which the applicant's certificate was based and within the ten years immediately preceding the application; and

- (C) If the applicant's certificate, license, or permit was issued more than four years prior to the application for issuance of an initial certificate under this Section, that the applicant has fulfilled the requirements of continuing professional education that would have been applicable under subsection (d) of this Section.
  - (2) As an alternative to the requirements of Section 6(c)(1) of this Act, a certificate holder licensed by another state who establishes their principal place of business in this state shall request the issuance of a certificate from the Board prior to establishing such principal place of business. The Board shall issue a certificate to such person who obtains from the NASBA National Qualification Appraisal Service verification that such individual's CPA qualifications are substantially equivalent to the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act.
  - (3) An application under this Section may be made through the NASBA Qualification Appraisal Service.

**COMMENT:** Subsection 6(c)(1) of this section offers a means of providing for reciprocal recognition of licensees of other states who are not eligible under the substantial equivalency standard set out in Section 23 of this Act. Paragraph 6(c)(1)(B) requires a determination that the certificate of the other state has been issued on the basis of education and examination “conditioning” requirements comparable to those of this state, but makes allowance for an experience requirement as a substitute for these. The reciprocity so offered would be limited to CPAs—that is, it would exclude “grandfathered” PAs of other jurisdictions—since it rests upon the applicant having a certificate in the other jurisdiction, and, although there are a few jurisdictions where certificates have been issued to “grandfathered” public accountants, the term “certificate” is defined in section 3(d) to refer only to certificates issued after successful completion of the examination prescribed in section 5 of this Act.

Subsection 6(c)(1)(C) is intended to assure that, where an extended period has passed between issuance of a certificate, license, or permit and the certificate holder's first application for a certificate in this state, the applicant has fulfilled at least a substantial portion of the CPE requirements that were applicable to licensees practicing in this state during the same period.

Subsection 6(c)(3) makes the NASBA Qualification Appraisal Service available to individuals who apply for reciprocity under Section 6(c).

Subsection 6(c)(2) deals with reciprocity under the substantial equivalency standard. Under substantial equivalency, licensure is required where the CPA has their his or her principal place of business. If a CPA relocates to another state and establishes a principal place of business in that state then they the CPA would be required to obtain a certificate in that state. With substantial equivalency established, however, this application process for an individual would essentially be routine and just a matter of filing an application and paying an appropriate fee.

(d) For renewal of a certificate under this Section each licensee shall participate in a

1 program of learning designed to maintain professional competency. Such program  
2 of learning must comply with rules adopted by the Board. The Board may by rule  
3 create an exception to this requirement for certificate holders who do not perform  
4 or offer to perform for the public one or more kinds of services involving the use of  
5 accounting or auditing skills, including issuance of reports on financial statements  
6 or of one or more kinds of management advisory, financial advisory or consulting  
7 services, or the preparation of tax returns or the furnishing of advice on tax matters.  
8 Licensees granted such an exception by the Board must place the word "inactive"  
9 adjacent to their CPA title or PA title on any business card, letterhead or any other  
10 document or device, with the exception of their CPA certificate or PA registration,  
11 on which their CPA or PA title appears.

12

13 *COMMENT:* A licensee is deemed competent to serve the public when he or she initially meets  
14 the requirements for licensure. However, a dynamic professional environment requires a  
15 licensee to continuously maintain and enhance his or her knowledge, skills and abilities. The  
16 board of accountancy may specify any reasonable approach to meeting this requirement using as  
17 a guideline the Statement on Standards for Continuing Professional Education (CPE) Programs  
18 jointly approved by the National Association of State Boards of Accountancy (NASBA) and the  
19 American Institute of Certified Public Accountants (AICPA).

20

21 (e) **The Board shall charge a fee for each application for initial issuance or renewal of a  
22 certificate under this Section in an amount prescribed by the Board by rule.**

23

24 (f) **Applicants for initial issuance or renewal of certificates under this Section shall in  
25 their applications list all states in which they have applied for or hold certificates,  
26 licenses, or permits and list any past denial, revocation or suspension of a certificate,  
27 license or permit, and each holder of or applicant for a certificate under this Section  
28 shall notify the Board in writing, within 30 days after its occurrence, of any  
29 issuance, denial, revocation, or suspension of a certificate, license or permit by  
30 another state.**

31

32 (g) **The Board shall issue a certificate to a holder of a substantially equivalent foreign  
33 designation, provided that:**

34

35 (1) **The foreign authority which granted the designation makes similar provision  
36 to allow a person who holds a valid certificate issued by this State to obtain  
37 such foreign authority's comparable designation; and**

38 (2) **The foreign designation:**

39

40 (A) **was duly issued by a foreign authority that regulates the practice of  
41 public accountancy and the foreign designation has not expired or been  
42 revoked or suspended;**

43

44 (B) **entitles the holder to issue reports upon financial statements; and**

45

46 (C) **was issued upon the basis of educational, examination, and experience**

1 requirements established by the foreign authority or by law; and  
2

3 (3) The applicant:

- 4 (A) received the designation, based on educational and examination  
5 standards substantially equivalent to those in effect in this State, at the  
6 time the foreign designation was granted;
- 7 (B) completed an experience requirement, substantially equivalent to the  
8 requirement set out in Section 5(f), in the jurisdiction which granted the  
9 foreign designation or has completed four years of professional  
10 experience in this State; or meets equivalent requirements prescribed by  
11 the Board by rule, within the ten years immediately preceding the  
12 application; and  
13
- 14 (C) passed a uniform qualifying examination in national standards [and an  
15 examination on the laws, regulations and code of ethical conduct in effect  
16 in this State] acceptable to the Board.

17 (h) An applicant under subsection (g) shall in the application list all jurisdictions,  
18 foreign and domestic, in which the applicant has applied for or holds a designation  
19 to practice public accountancy, and each holder of a certificate issued under this  
20 subsection shall notify the Board in writing, within thirty days after its occurrence,  
21 of any issuance, denial, revocation or suspension of a designation or commencement  
22 of a disciplinary or enforcement action by any jurisdiction.

23 (i) The Board has the sole authority to interpret the application of the provisions of  
24 subsections (g) and (h).

25 *COMMENT:* Sections 6(g), 6(h) and 6(i) are designed to allow granting of reciprocal certificates  
26 as certified public accountants to foreign accountants who meet standards equivalent to those in  
27 this state. They are based on professional competence and its objective is to provide international  
28 reciprocity to qualified individuals without imposing arbitrary or unnecessary restrictions. The  
29 requirement set out in subsection 6(h) parallels the requirement set out in section 6(f) for  
30 applicants from other states.

31 (j) The Board shall by rule require as a condition for renewal of a certificate under this  
32 Section, by any certificate holder who issues compilation reports for the public other  
33 than through a CPA firm, that such individual undergo, no more frequently than  
34 once every three years, a peer review conducted in such manner as the Board shall  
35 by rule specify, and such review shall include verification that such individual has  
36 met the competency requirements set out in professional standards for such  
37 services.

1      **SECTION 7**  
2      **FIRM PERMITS TO PRACTICE, ATTEST AND COMPILATION COMPETENCY**  
3      **AND PEER REVIEW**

5            (a)     The Board shall grant or renew permits to practice as a CPA firm to  
6       applicants that demonstrate their qualifications therefor in accordance with this  
7       Section.

9            (1)     The following must hold a permit issued under this Section:

11            (A)     Any firm with an office in this state performing attest services as  
12       defined in Section 3(b) of this Act; or,

14            (B)     Any firm with an office in this state that uses the title "CPA" or "CPA  
15       firm;" or,

17            (C)     Any firm that does not have an office in this state but offers or  
18       renders attest services as described in Section 3(b) of this Act in this  
19       state, unless it meets each of the following requirements:

21            (i)     it complies with the qualifications described in Section 7(c);

23            (ii)    it complies with the qualifications described in Section 7(h);

25            (iii)   it performs such services through an individual with practice  
26       privileges under Section 23 of this Act; and

28            (iv)    it can lawfully do so in the state where said individuals with  
29       practice privileges have their principal place of business.

31            (2)     A firm which is not subject to the requirements of Section 7(a)(1) may  
32       perform services described in Section 3(f) and other non-attest professional  
33       services while using the title "CPA" or "CPA firm" in this state without a  
34       permit issued under this Section only if:

36            (A)     it performs such services through an individual with practice  
37       privileges under Section 23 of the Act; and

39            (B)     it can lawfully do so in the state where said individuals with practice  
40       privileges have their principal place of business.

43      *COMMENT:* This Uniform Act departs from the pattern of some accountancy laws now in  
44      effect in eliminating any separate requirement for the registration of firms and of offices. The  
45      information-gathering and other functions accomplished by such registration should be equally  
46      easily accomplished as part of the process of issuing firm permits under this section. The  
47      difference is, again, one of form more than of substance but one that should be kept in mind if

1 consideration is given to fitting the permit provisions of this Uniform Act into an existing law.  
2

3 As pointed out in the comment following Section 3(g), above, because a CPA firm is defined to  
4 include a sole proprietorship, the permits contemplated by this section would be required of sole  
5 practitioners as well as larger practice entities. To avoid unnecessary duplication of paperwork, a  
6 Board could, if it deemed appropriate, offer a joint application form for certificates and sole  
7 practitioner firm permits.  
8

9 This provision also makes it clear that firms with an office in this state may not provide attest  
10 services as defined, or call themselves CPA firms without a license in this state. Certified Public  
11 Accountants are not required to offer services to the public, other than attest services, through a  
12 CPA firm. CPAs may offer non-attest services through any type of entity they choose and there  
13 are no requirements in terms of a certain percentage of CPA ownership for these types of entities  
14 as long as they do not call themselves a "CPA firm" or use the term "CPA" in association with  
15 the entity's name. These non-CPA firms are not required to be licensed by the State Board.  
16

17 Out-of-state firms without an office in this state may provide services other than those described  
18 in Section 3(b) for a client in this state, and call themselves CPA firms in this state without  
19 having a permit from this state so long as they do so through a licensee or individual with  
20 practice privileges and so long as they are qualified to do so under the requirements of Section  
21 7(a)(2). In addition, if the firm is exempt from the permit requirement pursuant to Section  
22 7(a)(1)(C), no permit is required regardless of the type of attest services or where the services are  
23 performed. Any firm practicing pursuant to this provision must, as required by Section 23(a)(3),  
24 comply with the practice privilege state's statutes and rules such as all those related to peer  
25 review including disclosures and on all other matters.  
26

27 A firm that does not comply with ownership (Section 7(c)) and peer review (Section 7(h))  
28 requirements must obtain a permit in a state before offering or rendering any attest service in that  
29 state.  
30

31 Depending on the services provided, and if the firm calls itself a CPA firm, such a firm is subject  
32 to the requirements described in revised subsection 7(a)(2)(A) or subsection 7(a)(3)(B),  
33 whichever is applicable.  
34

35

36 **(b) Permits shall be initially issued and renewed for periods of not more than three  
37 years but in any event expiring on [specified date] following issuance or renewal.  
38 Applications for permits shall be made in such form, and in the case of applications  
39 for renewal, between such dates as the Board may by rule specify, and the Board  
40 shall grant or deny any such application no later than \_\_\_\_\_ days after the  
41 application is filed in proper form. In any case where the applicant seeks the  
42 opportunity to show that issuance or renewal of a permit was mistakenly denied or  
43 where the Board is not able to determine whether it should be granted or denied, the  
44 Board may issue to the applicant a provisional permit, which shall expire ninety  
45 days after its issuance or when the Board determines whether or not to issue or  
46 renew the permit for which application was made, whichever shall first occur.**  
47

**1** *COMMENT:* See the comment following Section 6(b) regarding the renewal period.

(c) An applicant for initial issuance or renewal of a permit to practice under this Section shall be required to show that:

(1) Notwithstanding any other provision of law, a simple majority of the ownership of the firm, in terms of financial interests and voting rights of all partners, officers, shareholders, members or managers, belongs to holders of a certificate who are licensed in some state, and such partners, officers, shareholders, members or managers, whose principal place of business is in this state, and who perform professional services in this state hold a valid certificate issued under Section 6 of this Act or the corresponding provision of prior law or are public accountants registered under Section 8 of this Act. Although firms may include non-licensee owners the firm and its ownership must comply with rules promulgated by the Board. For firms of public accountants, at least a simple majority of the ownership of the firm, in terms of financial interests and voting rights, must belong to holders of registrations under Section 8 of this Act. An individual who has practice privileges under Section 23 who performs services for which a firm permit is required under Section 23(a)(4) shall not be required to obtain a certificate from this state pursuant to Section 6 of this Act.

**COMMENT:** The limitation of the requirement of certificates to partners, officers, shareholders, members and managers who have their principal place of business in the state is intended to allow some latitude for occasional visits and limited assignments within the state of firm personnel who are based elsewhere. If those out-of-state individuals qualify for practice privileges under Section 23 and do not have their principal places of business in this state, they do not have to be licensed in this state. In addition, the requirement allows for non-licensee ownership of licensed firms.

(2) Any CPA or PA firm as defined in this Act may include non-licensee owners provided that:

(A) The firm designates a licensee of this state, or in the case of a firm which must have a permit pursuant to Section 23(a)(4) a licensee of another state who meets the requirements set out in Section 23(a)(1) or in Section 23(a)(2), who is responsible for the proper registration of the firm and identifies that individual to the Board.

**(B) All non-licensee owners are of good moral character and active individual participants in the CPA or PA firm or affiliated entities.**

(C) The firm complies with such other requirements as the Board may impose by rule.

- (3) Any individual licensee and any individual granted practice privileges under this Act who is responsible for supervising attest or compilation services and signs or authorizes someone to sign the accountant's report on behalf of the firm, shall meet the competency requirements set out in the professional standards for such services.
  - (4) Any individual licensee and any individual granted practice privileges under this Act who signs or authorizes someone to sign the accountants' report on behalf of the firm shall meet the competency requirement of the prior subsection.

**COMMENT:** Because of the greater sensitivity of attest and compilation services, professional standards should set out an appropriate competency requirement for those who supervise them and sign attest or compilation reports. However, the accountant's report in such engagements may be supervised, or signed, or the signature authorized for the CPA firm by a practice privileged individual.

- (d) An applicant for initial issuance or renewal of a permit to practice under this Section shall be required to register each office of the firm within this State with the Board and to show that all attest and compilation services as defined herein rendered in this state are under the charge of a person holding a valid certificate issued under Section 6 of this Act or the corresponding provision of prior law or some other state.
  - (e) The Board shall charge a fee for each application for initial issuance or renewal of a permit under this Section in an amount prescribed by the Board by rule.
  - (f) An-a Applicants for initial issuance or renewal of permits under this Section shall in their application list all states in which they have applied for or hold permits as CPA firms and list any past denial, revocation or suspension of a permit by any other state, and each holder of or applicant for a permit under this Section shall notify the Board in writing, within 30 days after its occurrence, of any change in the identities of partners, officers, shareholders, members or managers whose principal place of business is in this State, any change in the number or location of offices within this State, any change in the identity of the persons in charge of such offices, and any issuance, denial, revocation, or suspension of a permit by any other state.
  - (g) Firms which fall out of compliance with the provisions of the section due to changes in firm ownership or personnel, after receiving or renewing a permit, shall take corrective action to bring the firm back into compliance as quickly as possible. The State Board may grant a reasonable period of time for a firm to take such corrective action. Failure to bring the firm back into compliance within a reasonable period as defined by the Board will result in the suspension or revocation of the firm permit.
  - (h) The Board shall by rule require as a condition to for renewal of permits under this Section, that applicants undergo, no more frequently than once every three years,

1           peer reviews conducted in such manner as the Board shall specify, and such review  
2           shall include a verification that individuals in the firm who are responsible for  
3           supervising attest and compilation services and sign or authorize someone to sign  
4           the accountant's report on the financial statements on behalf of the firm meet the  
5           competency requirements set out in the professional standards for such services,  
6           provided that any such rule --

- 7
- 8           (1) shall be promulgated reasonably in advance of the time when it first becomes  
9           effective;
- 10
- 11          (2) shall include reasonable provision for compliance by an applicant showing that  
12           it has, within the preceding three years, undergone a peer review that is a  
13           satisfactory equivalent to peer review generally required pursuant to this  
14           subsection (h);
- 15
- 16          (3) shall require, with respect to any organization administering peer review  
17           programs contemplated by paragraph (2), that it be subject to evaluations by  
18           the Board or its designee, to periodically assess the effectiveness of the peer  
19           review program under its charge, and
- 20
- 21          (4) \*may require that organizations administering peer review programs provide  
22           to the Board information as the Board designates by rule; and
- 23
- 24          (5) \*shall require with respect to peer reviews contemplated by paragraph (2) that  
25           licensees timely remit such peer review documents as specified by Board Rule  
26           or upon Board request and that such documents be maintained by the Board  
27           in a manner consistent with Section 4(j) of this Act.

28

29          \* Due to its 1988 commitment to its members, the AICPA cannot support this  
30           provision at this time.

31

32          *COMMENT:* The AICPA and NASBA both agree that periodic peer reviews are an important  
33           means of maintaining the general quality of professional practice.

34

35          In the interests of providing flexibility where appropriate or desirable, this provision would give  
36           the Board latitude when to require reviews. Paragraph (2) is intended to recognize that there are  
37           other valid reasons besides state regulation for which firms may undergo peer reviews (for  
38           example, as a condition to membership in the AICPA). It is also intended to avoid unnecessary  
39           duplication of such reviews, by providing for the acceptance of peer reviews performed by other  
40           groups or organizations whose work could be relied on by the Board. If a peer review  
41           requirement is established by the Board, paragraph (3) requires that the Board assure that there is  
42           an evaluation of the administration of the peer review program(s) which is accepted by the  
43           Board, which is performed either by the Board or its designee. Paragraph (4) would require the  
44           administering entities of peer review programs to provide the Board information, as required by  
45           rule. Paragraph (5) requires that licensees remit peer review documents to the Board, as  
46           specified by rule, and that these documents would be maintained subject to the confidentiality  
47           provision in Section 4(j) of the Act.

1 Paragraphs (4) and (5) primarily address the ability of the Board to have direct access to peer  
2 review results. Previous editions of the UAA contained language that could have been  
3 interpreted to either not permit or to limit state boards' access to results of the peer review  
4 process. Language that restricted the Board's ability to access the results of peer review was  
5 consistent with the AICPA's commitment to its membership to maintain the confidentiality of  
6 peer review materials that were generated through the AICPA peer review program. However,  
7 in response to regulatory concerns it was determined that new language was needed to provide  
8 for greater transparency. At its spring 2004 meeting, AICPA's governing Council approved a  
9 resolution in support of increased transparency in the peer review process. However, as a result  
10 of the AICPA's 1988 commitment to its membership to maintain the confidentiality of peer  
11 review results, the AICPA's Council will not act on its resolution without a vote of the AICPA's  
12 membership. The AICPA will not pursue a vote of its membership until the membership has  
13 fully considered the issues surrounding this matter. Until that time, a solution for the UAA was  
14 crafted that recognized the authority of state boards of accountancy to take action and at the same  
15 time allowed the Institute to keep its commitment to the AICPA membership on confidentiality  
16 of peer review materials. For that reason, paragraphs (4) and (5) are marked with an asterisk (\*)  
17 that states "Due to its 1988 commitment to its members, the AICPA cannot support this  
18 provision at this time."

20  
21 The term "peer review" is defined in section 3(n).

1      **SECTION 8**  
2      **PUBLIC ACCOUNTANTS AND FIRMS OF PUBLIC ACCOUNTANTS**  
3

4      **Persons who on the effective date of this Act hold registrations as public accountants issued  
5      under prior law of this State shall be entitled to have their registrations renewed upon  
6      fulfillment of the continuing professional education requirements for renewal of certificates  
7      set out in Section 6 of this Act, and on the renewal cycle and payment of fees there  
8      prescribed for renewal of certificates. Any registration not so renewed shall expire three  
9      years after the effective date of this Act. Firms of public accountants holding permits to  
10     practice as such issued under prior law of this State shall be entitled to have their permits  
11     to practice renewed pursuant to the procedures, and subject to the requirements for  
12     renewal of permits to practice for firms of Certified Public Accountants, set out in  
13     Section 7 of this Act. So long as such public accountant licensees hold valid registrations  
14     and permits to practice, they shall be entitled to perform attest and compilation services to  
15     the same extent as holders of certificates, and other holders of permits, and in addition they  
16     shall be entitled to use the title "public accountants" and "PA," but no other title. The  
17     holder of a registration issued under this Section may only perform attest services in a firm  
18     that holds a permit issued under Section 7 of this Act.**

19  
20     *COMMENT:* This provision would be of use in jurisdictions where under the previous law a  
21     class of "grandfathered" public accountants was licensed to perform the audit function. Many  
22     accountancy laws now in effect have substantially more elaborate provisions to deal with public  
23     accountants, but a comparatively simple provision such as this one should be sufficient. Those  
24     coming within this provision would, like holders of certificates, be required to have a currently  
25     valid registration in order to provide attest and compilation services, and they would be subject  
26     to the same continuing professional education requirements as apply for renewal of certificates  
27     and the same rules, as holders of certificates. They would in fact be treated the same as holders  
28     of certificates for virtually all purposes, the principal differences being in the titles they and their  
29     firms would be permitted to use, and in a lack of reciprocity to comparable licensees of other  
30     states (see comments following Sections 6(c) and 7(c)). This section also makes it clear that  
31     public accountants may only perform attest services in licensed firms.

1   **SECTION 9**  
2   **APPOINTMENT OF SECRETARY OF STATE AS AGENT**  
3

4   **Application by a person or a firm not a resident of this State for a certificate under Section  
5   6 of this Act or a permit to practice under Section 7 shall constitute appointment of the  
6   Secretary of State as the applicant's agent upon whom process may be served in any action  
7   or proceeding against the applicant arising out of any transaction or operation connected  
8   with or incidental to services performed by the applicant while a licensee within this State.**  
9

10   *COMMENT:* In many laws now in effect, a provision of this kind appears in each of the  
11   Sections dealing with the issuance of a certificate or any form of permit. Since there are several  
12   such provisions in this Uniform Act-UAA (as there are in many existing laws), repetition is here  
13   avoided by having this single comprehensive provision. This Section pertains to applicants for  
14   licensure. Since persons using practice privileges are not required to apply or provide notice,  
15   Section 23(a)(3)(D) requires that individuals and firms using practice privileges consent to the  
16   appointment of the State Board which issued their license as their agent upon whom process may  
17   be served in any action or proceeding by this Board against them.

1           **SECTION 10**  
2           **ENFORCEMENT- GROUNDS FOR DISCIPLINE**  
3

4           **(a) After notice and hearing pursuant to the Administrative Procedures Act, the Board**  
5           **may revoke any license issued under Sections 6, 7 or 8 of this Act or corresponding**  
6           **provisions of prior law, or revoke or limit privileges under Section 23 of this Act;**  
7           **suspend any such license or refuse to renew any such license for a period of not**  
8           **more than \_\_\_\_ years; reprimand, censure, or limit the scope of practice of any**  
9           **licensee; impose an administrative fine not exceeding \_\_\_\_, or place any licensee on**  
10          **probation, all with or without terms, conditions, and limitations, for any one or**  
11          **more of the following reasons:**

- 12
- 13          **(1) Dishonesty, fraud or deceit in obtaining a license;**
- 14
- 15          **(2) Cancellation, revocation, suspension or refusal to renew a license or privileges**  
16          **under Section 23 for disciplinary reasons in any other state for any cause;**
- 17
- 18          **(3) Failure, on the part of a licensee under Sections 6 or 7 or registration under**  
19          **Section 8, to maintain compliance with the requirements for issuance or**  
20          **renewal of such certificate, permit or registration or to report changes to the**  
21          **Board under Sections 6(f) or 7(f);**
- 22
- 23          **(4) Revocation or suspension of the right to practice by any state or federal**  
24          **regulatory authority or by the PCAOB;**
- 25
- 26          **(5) Dishonesty, fraud, deceit or gross negligence in the performance of services as**  
27          **a licensee or individual granted privileges under Section 23 or in the filing or**  
28          **failure to file one's own income tax returns;**
- 29
- 30          **(6) Violation of any provision of this Act or rule promulgated by the Board under**  
31          **this Act or violation of professional standards;**
- 32
- 33          **(7) Violation of any rule of professional conduct promulgated by the Board under**  
34          **Section 4(h)(4) of this Act;**
- 35
- 36          **(8) Conviction of a felony, or of any other crime an element of which is dishonesty,**  
37          **fraud or deceit, under the laws of the United States, of this State, or of any**  
38          **other state if the acts involved would have constituted a crime under the laws**  
39          **of this State;**
- 40
- 41          **(9) Performance of any fraudulent act while holding a license or privilege issued**  
42          **under this Act or prior law;**
- 43
- 44          **(10) Any conduct reflecting adversely upon the licensee's fitness to perform services**  
45          **while a licensee, or individual granted privileges under Section 23; or**
- 46          **(11) Making any false or misleading statement or verification, in support of an**

1                   **application for a license filed by another.**  
2

3       *COMMENT:* This provision departs from the typical corresponding provision of some  
4 accountancy laws now in effect in two respects. One of these is the provision for an  
5 administrative fine, in addition to other possible penalties. There is such a provision in some  
6 accountancy laws; whether such a provision is permissible in the laws of other states is a matter  
7 for individual determination in each jurisdiction.  
8

9       The other departure from the prior common pattern is in paragraph (10), a catch-all provision  
10 which is phrased in terms of conduct reflecting adversely on the licensee's fitness to perform  
11 services rather than the broader and vaguer conventional phrase, "conduct discreditable to the  
12 accounting profession." This narrower provision is intended to avoid problems of vagueness and  
13 overbreadth. A similar change is involved in the requirement of "good moral character" in  
14 section 5(b).  
15

16       **(b) In lieu of or in addition to any remedy specifically provided in subsection (a) of this  
17 Section, the Board may require of a licensee--**

18                   **(1) A peer review conducted in such fashion as the Board may specify; and/or**

19                   **(2) Satisfactory completion of such continuing professional education programs as  
20                   the Board may specify.**

21       *COMMENT:* This subsection is intended to provide rehabilitative remedies for enforcement  
22 proceedings against licensees, in addition to (or in place of) the more traditional punitive  
23 remedies provided in subsection (a). The term "peer review" is defined in section 3(n).  
24

25       **(c) In any proceeding in which a remedy provided by subsections (a) or (b) of this  
26 Section is imposed, the Board may also require the respondent licensee to pay the  
27 costs of the proceeding.**

28       *COMMENT:* This provision appears appropriate in terms of both equity and the economics of  
29 Board operations.  
30

1      **SECTION 11**  
2      **ENFORCEMENT--INVESTIGATIONS**

- 3
- 4      (a) The Board may, upon receipt of a complaint or other information suggesting  
5      violations of this Act or of the rules of the Board, conduct investigations to  
6      determine whether there is probable cause to institute proceedings under Sections  
7      12, 15, or 16 of this Act against any person or firm for such violation, but an  
8      investigation under this Section shall not be a prerequisite to such proceedings in  
9      the event that a determination of probable cause can be made without investigation.  
10     In aid of such investigations, the Board or the Chair thereof may issue subpoenas to  
11     compel witnesses to testify and/or to produce evidence.
- 12
- 13     (b) The Board may designate a member, or any other person of appropriate  
14     competence, to serve as investigating officer to conduct an investigation. Upon  
15     completion of an investigation, the investigating officer shall file a report with the  
16     Board. The Board shall find probable cause or lack of probable cause upon the basis  
17     of the report or shall return the report to the investigating officer for further  
18     investigation. Unless there has been a determination of probable cause, the report of  
19     the investigating officer, the complaint, if any, the testimony and documents  
20     submitted in support of the complaint or gathered in the investigation, and the fact  
21     of pendency of the investigation shall be treated as confidential information and  
22     shall not be disclosed to any person except law enforcement authorities and, to the  
23     extent deemed necessary in order to conduct the investigation, the subject of the  
24     investigation, persons whose complaints are being investigated, and witnesses  
25     questioned in the course of the investigation.
- 26
- 27     (c) Upon a finding of probable cause, if the subject of the investigation is a licensee or  
28     an individual with privileges under Section 23 of this Act, the Board shall direct that  
29     a complaint be issued under Section 12 of this Act, and if the subject of the  
30     investigation is not a licensee or an individual with privileges under Section 23, the  
31     Board shall take appropriate action under Sections 15 or 16 of this Act. Upon a  
32     finding of no probable cause, the Board shall close the matter and shall thereafter  
33     release information relating thereto only with the consent of the person or firm  
34     under investigation.
- 35
- 36     (d) The Board may review the publicly available professional work of licensees or -an  
37     individual with privileges under Section 23 of this Act on a general and random  
38     basis, without any requirement of a formal complaint or suspicion of impropriety.  
39     In the event that as a result of such review the Board discovers reasonable grounds  
40     for a more specific investigation, the Board may proceed under subsections (a)  
41     through (c) of this Section.

42

43     *COMMENT:* This provision contemplates “positive enforcement,” which is to say review of the  
44     professional work of licensees without any triggering requirement of receipt of complaints.

1      **SECTION 12**  
2      **ENFORCEMENT PROCEDURES--HEARINGS BY THE BOARD**

- 3
- 4      (a) In any case where probable cause with respect to a violation by a licensee or an  
5      individual with privileges granted under Section 23 of this Act has been determined  
6      by the Board, whether following an investigation under Section 11 of this Act, or  
7      upon receipt of a written complaint furnishing grounds for a determination of such  
8      probable cause, or upon receipt of notice of a decision by the Board of Accountancy  
9      of another state furnishing such grounds, the Board shall issue a complaint setting  
10     forth appropriate charges and set a date for hearing before the Board on such  
11     charges. The Board shall, not less than 30 days prior to the date of the hearing,  
12     serve a copy of the complaint and notice of the time and place of the hearing upon  
13     the licensee or an individual with privileges granted under Section 23 of this Act,  
14     together with a copy of the Board's rules governing proceedings under this Section,  
15     either by personal delivery or by mailing a copy thereof by registered mail to the  
16     licensee at the licensee's address last known to the Board. In the case of an  
17     individual exercising privileges under Section 23, service shall be by registered mail  
18     to the address last known to the Board, or pursuant to Section 23(a)(3)(c).
- 19
- 20     (b) A licensee or an individual with privileges under Section 23, against whom a  
21     complaint has been issued under this Section shall have the right, reasonably in  
22     advance of the hearing, to examine and copy the report of investigation, if any, and  
23     any documentary or testimonial evidence and summaries of anticipated evidence in  
24     the Board's possession relating to the subject matter of the complaint. The Board's  
25     rules governing proceedings under this Section shall specify the manner in which  
26     such right may be exercised.

27

28     *COMMENT:* Although the procedures followed by many Boards of Accountancy now include,  
29     on either a formal or an informal basis, prehearing disclosure to the respondent of the evidence  
30     that will be offered in support of a complaint, it seems desirable to embody so fundamental a  
31     procedural right in the governing statute.

- 32
- 33     (c) In a hearing under this Section the respondent licensee or an individual with  
34     privileges granted under Section 23 may appear in person (or, in the case of a firm,  
35     through a partner, officer, director, shareholder, member or manager) and/or by  
36     counsel, examine witnesses and evidence presented in support of the complaint, and  
37     present evidence and witnesses on the licensee's or an individual's own behalf. The  
38     licensee or an individual granted privileges under Section 23 shall be entitled, on  
39     application to the Board, to the issuance of subpoenas to compel the attendance of  
40     witnesses and the production of documentary evidence.
- 41
- 42     (d) The evidence supporting the complaint shall be presented by the investigating  
43     officer, by a Board member designated for that purpose, or by counsel. A Board  
44     member who presents the evidence, or who has conducted the investigation of the  
45     matter under Section 11 of this Act, shall not participate in the Board's decision of  
46     the matter.

1    *COMMENT:* The provision disqualifying a Board member who presents the evidence or who  
2 has investigated the case from participating in the Board's decision of the case again reflects  
3 common practice, but like subsection (b) it appears to involve a sufficiently fundamental point to  
4 merit explicit mention in the statute. The purpose is, of course, to separate the prosecutorial and  
5 adjudicative functions of the Board.

6  
7 Some or all of the procedural matters of this kind included in this UAA Uniform Act may be  
8 dealt with by statutes of general applicability, such as Administrative Procedure Acts, and so be  
9 unnecessary for inclusion in an accountancy law.

10  
11 (e) **In a hearing under this Section the Board shall be advised by counsel, who shall not  
12 be the same counsel who presents or assists in presenting the evidence supporting  
13 the complaint under subsection (d) of this Section.**

14  
15 *COMMENT:* The comments under subsection (d) are applicable here also. It should be noted  
16 that this provision would not require two lawyers in all cases: It simply requires that if there is  
17 counsel involved in presenting the complaint, in addition to counsel advising the Board, it must  
18 not be the same counsel. If there were two counsel, they might both be provided by the state  
19 attorney general's office, so long as they were firmly insulated from each other.

20  
21 (f) **In a hearing under this Section the Board shall not be bound by technical rules of  
22 evidence.**

23  
24 (g) **In a hearing under this Section an stenographic or electronic record shall be made  
25 and filed with the Board. A transcript need not be prepared unless review is sought  
26 under subsection (j) of this Section or the Board determines that there is other good  
27 cause for its preparation.**

28  
29 (h) **In a hearing under this Section a recorded vote of a majority of all members of the  
30 Board then in office (excluding members disqualified by reason of subsection (d) of  
31 this Section) shall be required to sustain any charge and to impose any penalty with  
32 respect thereto.**

33  
34 (i) **If, after service of a complaint and notice of hearing as provided in subsection (a) of  
35 this Section, the respondent licensee fails to appear at the hearing, the Board may  
36 proceed to hear evidence against the licensee or an individual granted privileges  
37 under Section 23 and may enter such order as it deems warranted by the evidence,  
38 which order shall be final unless the licensee or an individual granted privileges  
39 under Section 23 petitions for review thereof under subsection (j) of this Section,  
40 provided, however, that within thirty days from the date of any such order, upon a  
41 showing of good cause for the licensee's or an individual's failure to appear and  
42 defend, the Board may set aside the order and schedule a new hearing on the  
43 complaint, to be conducted in accordance with applicable subsections of this  
44 Section.**

45  
46 (j) **Any person or firm adversely affected by any order of the Board entered after a  
47 hearing under this Section may obtain review thereof by filing a written petition for**

1 review with the \_\_\_\_\_ Court within thirty days after the entry of said order. The  
2 procedures for review and the scope of the review shall be as specified in [State  
3 Administrative Procedure Act, or other statute providing for judicial review of  
4 actions of administrative agencies].  
5

6 *COMMENT:* This provision would depart from the pattern of some accountancy laws now in  
7 effect in providing that, where a decision of the Board is appealed to a court, the court will not  
8 conduct a trial de novo but rather will review the Board's decision on the same basis as  
9 ordinarily applies in cases of judicial review of decisions by administrative agencies: That is,  
10 reversal will be based on errors of law or procedure, or on a lack of substantial evidence to  
11 support factual determinations. If in a given state there is no Administrative Procedure Act or  
12 analogous statute, it will be necessary to spell out the standards and procedures in this provision.  
13

14 The right of appeal is not limited to persons or firms against whom disciplinary proceedings are  
15 specifically directed but includes anyone who is "adversely affected." Thus, for example, a  
16 partner in a firm that was subjected to discipline in a given case, or a firm of which a partner was  
17 disciplined, might be adversely affected by the Board's order so as to be entitled to appeal it.  
18

- 19 (k) In any case where the Board renders an order imposing discipline against a licensee  
20 or an individual granted privileges under Section 23 of this Act, the Board shall  
21 examine its records to determine whether the individual or firm holds a license or  
22 practice privilege in any other state or is subject to the PCAOB's authority; and if  
23 so, the Board shall notify the State Boards of Accountancy and any other regulatory  
24 authorities, including the PCAOB if applicable, of its decision immediately in the  
25 case of a consent order and in all other cases when the time for giving notice of an  
26 appeal from the Board's order has expired. Such notice shall indicate whether or  
27 not the subject order has been appealed and whether or not the subject order has  
28 been stayed. In the alternative, the Board may report such disciplinary actions to a  
29 multistate enforcement information network. Subject to Section 4(j) [Board  
30 Records Confidential] of this Act, the Board may also furnish investigative  
31 information and the hearing record relating to proceedings resulting in disciplinary  
32 action in such cases to such other regulatory authorities upon request.

1      **SECTION 13**  
2      **REINSTATEMENT**

- 3
- 4      (a)     In any case where the Board has suspended or revoked a certificate or a permit or  
5           registration or revoked or limited privileges under Section 23 or refused to renew a  
6           certificate, permit, or registration, the Board may, upon application in writing by  
7           the person or firm affected and for good cause shown, modify the suspension, or  
8           reissue the certificate, permit, or registration or remove the limitation or revocation  
9           of privileges under Section 23.
- 10
- 11     (b)    The Board shall by rule specify the manner in which such applications shall be  
12           made, the times within which they shall be made, and the circumstances in which  
13           hearings will be held thereon.
- 14
- 15     (c)    Before reissuing, or terminating the revocation, suspension or limitation of, a  
16           certificate, permit or registration under this Section or of privileges under Section  
17           23, and as a condition thereto, the Board may require the applicant therefor to show  
18           successful completion of specified continuing professional education; and the Board  
19           may make the reinstatement of a certificate, permit or registration or of privileges  
20           under Section 23 conditional and subject to satisfactory completion of a peer review  
21           conducted in such fashion as the Board may specify.

22

23     *COMMENT:* The term "peer review" is defined in section 3(n).

1      **SECTION 14**  
2      **UNLAWFUL ACTS**

3  
4      **(a) Only licensees and individuals who have practice privileges under Section 23 of this**  
5      **Act may issue a report on financial statements of any person, firm, organization, or**  
6      **governmental unit or offer to render or render any attest or compilation service, as**  
7      **defined herein. This restriction does not prohibit any act of a public official or**  
8      **public employee in the performance of that person's duties as such; or prohibit the**  
9      **performance by any non-licensee of other services involving the use of accounting**  
10     **skills, including the preparation of tax returns, management advisory services, and**  
11     **the preparation of financial statements without the issuance of reports thereon.**  
12     **Non-licensees may prepare financial statements and issue non-attest transmittals or**  
13     **information thereon which do not purport to be in compliance with the Statements**  
14     **on Standards for Accounting and Review Services (SSARS).**

15  
16     **COMMENT:** This provision, giving application to the definition of attest in Section 3(b) and  
17     report in Section 3(r) above, is the cornerstone prohibition of the UAA Uniform Act, reserving  
18     the performance of those professional services calling upon the highest degree of professional  
19     skill and having greatest consequence for persons using attested information--namely, the audit  
20     function and other attest and compilation services as defined herein -- to licensees. It is so  
21     drafted as to make as clear and emphatic as possible the limited nature of this exclusively  
22     reserved function and the rights of unlicensed persons to perform all other functions. Consistent  
23     with Section 23, individuals with practice privileges may render these reserved professional  
24     services to the same extent as licensees.

25  
26     This provision is also intended to extend the reservation of the audit function to other services  
27     that also call for special skills and carry particular consequence for users of such other services,  
28     albeit in each respect to a lesser degree than the audit function. Thus, reserved services include  
29     the performance of compilations and reviews of financial statements, in accordance with the  
30     AICPA's Statements on Standards for Accounting and Review Services, which set out the  
31     standards to be met in a compilation or review and specify the form of communication to  
32     management or report to be issued. Also reserved to licensees are attestation engagements  
33     performed in accordance with Statements on Standards for Attestation Engagements which set  
34     forth the standards to be met and the reporting on the engagements enumerated in the SSAEs.  
35     The subsection is intended to prevent issuance by non-licensees of reports or communication to  
36     management using that standard language or language deceptively similar to it. Safe harbor  
37     language which may be used by non-licensees is set out in Model Rule 14-2.

- 38  
39     **(b) Licensees and individuals who have practice privileges under Section 23 of this Act**  
40     **performing attest or compilation services must provide those services in accordance**  
41     **with applicable professional standards.**
- 42  
43     **(c) No person not holding a valid certificate or a practice privilege pursuant to Section**  
44     **23 of this Act shall use or assume the title “Ceertified Public A  
45     **abbreviation “CPA” or any other title, designation, words, letters, abbreviation,**  
46     **sign, card, or device tending to indicate that such person is a Ceertified Public**  
47     **Accountant.****

1  
2 *COMMENT:* This subsection prohibits the use by persons not holding certificates, or practice  
3 privileges, of the two titles, “certified public accountant” and “CPA,” that are specifically and  
4 inextricably tied to the granting of a certificate as certified public accountant under Section 6.

5 (d) **No firm shall provide attest services or assume or use the title “Ceertified Ppublic  
6 Accountants,” or the abbreviation “CPAs,” or any other title, designation, words,  
7 letters, abbreviation, sign, card, or device tending to indicate that such firm is a  
8 CPA firm unless (1) the firm holds a valid permit issued under Section 7 of this Act,  
9 and (2) ownership of the firm is in accord with this Act and rules promulgated by  
10 the Board.**

11  
12 *COMMENT:* Like the preceding subsection, this one restricts use of the two titles “Ceertified Public  
13 Accountants” and “CPAs,” but in this instance by firms, requiring the holding of a firm  
14 permit to practice unless they qualify for exemption as explained in Section 14(p). It also  
15 restricts unlicensed firms from providing attest services.

16 (e) **No person shall assume or use the title “public accountant,” or the abbreviation  
17 “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or  
18 device tending to indicate that such person is a public accountant unless that person  
19 holds a valid registration issued under Section 8 of this Act.**

20  
21 *COMMENT:* This subsection, and the one that follows, reserve the title “public accountant” and  
22 its abbreviation in the same fashion as subsections (c) and (d) do for the title “Ceertified Public  
23 Accountant” and its abbreviation. The two provisions would of course only be required in a  
24 jurisdiction where there were grandfathered public accountants as contemplated by Section 8.

25 (f) **No firm not holding a valid permit issued under Section 7 of this Act shall provide  
26 attest services or assume or use the title “public accountant,” the abbreviation  
27 “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or  
28 device tending to indicate that such firm is composed of public accountants.**

29  
30 *COMMENT:* See the comments following subsections (d) and (e).

31 (g) **No person or firm not holding a valid certificate, permit or registration issued under  
32 Sections 6, 7, or 8 of this Act shall assume or use the title “certified accountant,”  
33 “chartered accountant,” “enrolled accountant,” “licensed accountant,” “registered  
34 accountant,” “accredited accountant,” or any other title or designation likely to be  
35 confused with the titles “Ceertified Public Accountant” or “public accountant,”  
36 or use any of the abbreviations “CA,” “LA,” “RA,” “AA,” or similar abbreviation  
37 likely to be confused with the abbreviations “CPA” or “PA.” The title “Enrolled  
38 Agent” or “EA” may only be used by individuals so designated by the Internal  
39 Revenue Service.**

40  
41 *COMMENT:* This provision is intended to supplement the prohibitions of subsections (c)  
42 through (f) on use of titles by prohibiting other titles that may be misleadingly similar to the titles

1 specifically reserved to licensees or that otherwise suggest that their holders are licensed.  
2

3 **(h)(1) Non-licensees may not use language in any statement relating to the financial affairs  
4 of a person or entity which is conventionally used by licensees in reports on financial  
5 statements or any attest service as defined herein. In this regard, the Board shall  
6 issue safe harbor language non-licensees may use in connection with such financial  
7 information.**

8  
9 **(2) No person or firm not holding a valid certificate, permit or registration issued under  
10 Sections 6, 7, or 8 of this Act shall assume or use any title or designation that  
11 includes the words “accountant,” “auditor,” or “accounting,” in connection with  
12 any other language (including the language of a report) that implies that such  
13 person or firm holds such a certificate, permit, or registration or has special  
14 competence as an accountant or auditor, provided, however, that this subsection  
15 does not prohibit any officer, partner, member, manager or employee of any firm or  
16 organization from affixing that person’s own signature to any statement in  
17 reference to the financial affairs of such firm or organization with any wording  
18 designating the position, title, or office that the person holds therein nor prohibit  
19 any act of a public official or employee in the performance of the person’s duties as  
20 such.**

21  
22 *COMMENT:* This provision clarifies the language and titles that are prohibited for non-  
23 licensees. Like the preceding subsection, subsection (h)(2) of this provision is intended to  
24 supplement the prohibitions of subsections (c) through (f), by prohibiting other titles which may  
25 be misleadingly similar to the specifically reserved titles or that otherwise suggest licensure. In  
26 the interest of making the prohibition against the issuance by unlicensed persons of reports on  
27 audits, reviews, compilations and reports issued under the SSAE as tight and difficult to evade as  
28 possible, there is also some overlap between this provision and the prohibitions in subsection (a).  
29 Safe harbor language is set out in Rule 14-2.

30  
31 **(i) No person holding a certificate or registration or firm holding a permit under this  
32 Act shall use a professional or firm name or designation that is misleading about the  
33 legal form of the firm, or about the persons who are partners, officers, members,  
34 managers or shareholders of the firm, or about any other matter, provided,  
35 however, that names of one or more former partners, members, managers or  
36 shareholders may be included in the name of a firm or its successor. A common  
37 brand name, including common initials, used by a CPA Firm in its name, is not  
38 misleading if said firm is a Network Firm as defined in the AICPA Code of  
39 Professional Conduct (“Code”) in effect July 1, 2011 and, when offering or  
40 rendering services that require independence under AICPA standards, said firm  
41 must comply with the Code’s applicable standards on independence.**

42  
43 *COMMENT:* With regard to use of a common brand name or common initials by a Network  
44 Firm, this language should be considered in conjunction with Rules 14-1 (c) and (d), which  
45 provide further clarity and guidance.

46  
47 **(j) None of the foregoing provisions of this Section shall have any application to a**

1           **person or firm holding a certification, designation, degree, or license granted in a**  
2           **foreign country entitling the holder thereof to engage in the practice of public**  
3           **accountancy or its equivalent in such country, whose activities in this State are**  
4           **limited to the provision of professional services to persons or firms who are**  
5           **residents of, governments of, or business entities of the country in which the person**  
6           **holds such entitlement, who performs no attest or compilation services as defined in**  
7           **this Act and who issues no reports as defined in this Act with respect to information**  
8           **of any other persons, firms, or governmental units in this State, and who does not**  
9           **use in this State any title or designation other than the one under which the person**  
10          **practices in such country, followed by a translation of such title or designation into**  
11          **the English language, if it is in a different language, and by the name of such**  
12          **country.**

13  
14          *COMMENT:* The right spelled out in this provision, of foreign licensees to provide services in  
15          the state to foreign-based clients, looking to the issuance of reports only in foreign countries, is  
16          essentially what foreign licensees have a right to do under most laws now in effect, simply  
17          because no provision in those laws restricts such a right. The foreign titles used by foreign  
18          licensees might otherwise run afoul of standard prohibitions with respect to titles (such as one on  
19          titles misleadingly similar to "CPA") but this provision would grant a dispensation not found in  
20          most laws now in force.

21  
22          (k)       **No holder of a certificate issued under Section 6 of this Act or a registration issued**  
23          **under Section 8 of this Act shall perform attest services through any business form**  
24          **that does not hold a valid permit issued under Section 7 of this Act unless exempt**  
25          **pursuant to Sec. 7(a)(1)(C).**

26  
27          *COMMENT:* See the comments following Sections 6(a), 7(a) and 8.

28  
29          (l)       **No individual licensee shall issue a report in standard form upon a compilation of**  
30          **financial information through any form of business that does not hold a valid permit**  
31          **issued under Section 7 of this Act unless the report discloses the name of the**  
32          **business through which the individual is issuing the report, and the individual:**

33  
34           (1) **signs the compilation report identifying the individual as a CPA or PA,**  
35  
36           (2) **meets the competency requirement provided in applicable standards, and**  
37  
38           (3) **undergoes no less frequently than once every three years, a peer review**  
39          **conducted in such manner as the Board shall by rule specify, and such review**  
40          **shall include verification that such individual has met the competency**  
41          **requirements set out in professional standards for such services.**

42  
43          (m) **Nothing herein shall prohibit a practicing attorney or firm of attorneys from**  
44          **preparing or presenting records or documents customarily prepared by an attorney**  
45          **or firm of attorneys in connection with the attorney's professional work in the**  
46          **practice of law.**

- (n)(1) A licensee shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the licensee also performs for that client,

(A) an audit or review of a financial statement; or

(B) a compilation of a financial statement when the licensee expects, or reasonably might expect, that a third party will use the financial statement and the licensee's compilation report does not disclose a lack of independence; or

(C) an examination of prospective financial information.

This prohibition applies during the period in which the licensee is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

- (2) A licensee who is not prohibited by this section from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the licensee recommends or refers a product or service to which the commission relates.
  - (3) Any licensee who accepts a referral fee for recommending or referring any service of a licensee to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

- (o)(1) A licensee shall not:**

- (A) perform for a contingent fee any professional services for, or receive such a fee from a client for whom the licensee or the licensee's firm performs,
    - (i) an audit or review of a financial statement; or
    - (ii) a compilation of a financial statement when the licensee expects, or reasonably might expect, that a third party will use the financial statement and the licensee's compilation report does not disclose a lack of independence; or
    - (iii) an examination of prospective financial information; or
  - (B) Prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client.

(2) The prohibition in (1) above applies during the period in which the licensee is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in any such listed services.

1           (3) Except as stated in the next sentence, a contingent fee is a fee established for the  
2           performance of any service pursuant to an arrangement in which no fee will be  
3           charged unless a specified finding or result is attained, or in which the amount of  
4           the fee is otherwise dependent upon the finding or result of such service. Solely for  
5           purposes of this section, fees are not regarded as being contingent if fixed by courts  
6           or other public authorities, or, in tax matters, if determined based on the results of  
7           judicial proceedings or the findings of governmental agencies. A licensee's fees may  
8           vary depending, for example, on the complexity of services rendered.

9

10          *COMMENT:* Section 14(n) on commissions is based on Rule 503 of the AICPA Code of  
11          Professional Conduct. Section 14(o) on contingent fees is based on Rule 302 of the AICPA  
12          Code of Professional Conduct.

13

14

15          (p) Notwithstanding anything to the contrary in this Section, it shall not be a violation  
16          of this Section for a firm which does not hold a valid permit under Section 7 of this  
17          Act and which does not have an office in this state to use the title "CPA" or  
18          "Certified Public Accountants" as part of the firm's name and to provide its  
19          professional services in this state, and licensees and individuals with practice  
20          privileges may provide services on behalf of such firms so long as the firm complies  
21          with the requirements of Section 7(a)(1)(C) or Section 7(a)(2), whichever is  
22          applicable. An individual or firm authorized under this provision to use practice  
23          privileges in this state shall comply with the requirements otherwise applicable to  
24          licensees in Section 14 of this Act.

25

26

27          *COMMENT:* Section 14(p) has been added along with revisions to Sections 23 and 7, to provide  
28          that as long as an out-of-state firm complies with the requirements of Section 7(a)(1)(C) or  
29          7(a)(2), whichever is applicable, it can do so through practice privileged individuals without a  
30          CPA firm permit from this state. The addition of the last sentence of this Section 14(p) makes  
31          certain other provisions of Section 14 that otherwise pertain only to "licensees" (specifically,  
32          Sections 14 (h), (k), (l), (n), and (o)) directly applicable to individuals and firms which are  
33          exempt from licensing or permit requirements in this state.

1   **SECTION 15**  
2   **INJUNCTIONS AGAINST UNLAWFUL ACTS**  
3

4   Whenever, as a result of an investigation under Section 11 of this Act or otherwise, the  
5   Board believes that any person or firm has engaged, or is about to engage, in any acts or  
6   practices which constitute or will constitute a violation of Section 14 of this Act, the Board  
7   may make application to the appropriate court for an order enjoining such acts or  
8   practices, and upon a showing by the Board that such person or firm has engaged, or is  
9   about to engage, in any such acts or practices, an injunction, restraining order, or other  
10   order as may be appropriate shall be granted by such court.

1      **SECTION 16**  
2      **CRIMINAL PENALTIES**

- 3
- 4      (a) Whenever, by reason of an investigation under Section 11 of this Act or otherwise,  
5            the Board has reason to believe that any person or firm has knowingly engaged in  
6            acts or practices that constitute a violation of Section 14 of this Act, the Board may  
7            bring its information to the attention of the Attorney General of any State (or other  
8            appropriate law enforcement officer) who may, in the officer's discretion, cause  
9            appropriate criminal proceedings to be brought thereon.
- 10
- 11     (b) Any person or firm who knowingly violates any provision of Section 14 of this Act  
12            shall be guilty of a misdemeanor, and upon conviction thereof shall be subject to a  
13            fine of not more than \$\_\_\_\_\_ or to imprisonment for not more than one year,  
14            or to both such fine and imprisonment.

15

16     *COMMENT:* The word "knowingly" is included in this provision to assure that criminal  
17            penalties will not be applied in the absence of conscious wrongdoing.

1   **SECTION 17**

2   **SINGLE ACT EVIDENCE OF PRACTICE**

3

4   **In any action brought under Sections 12, 15, or 16 of this Act, evidence of the commission**

5   **of a single act prohibited by this Act shall be sufficient to justify a penalty, injunction,**

6   **restraining order, or conviction, respectively, without evidence of a general course of**

7   **conduct.**

1   **SECTION 18**  
2   **CONFIDENTIAL COMMUNICATIONS**  
3

4   **Except by permission of the client for whom a licensee performs services or the heirs,  
5   successors, or personal representatives of such client, a licensee under this Act, shall not  
6   voluntarily disclose information communicated to the licensee by the client relating to and  
7   in connection with services rendered to the client by the licensee. Such information shall be  
8   deemed confidential, provided, however, that nothing herein shall be construed as  
9   prohibiting the disclosure of information required to be disclosed by the standards of the  
10   public accounting profession in reporting on the examination of financial statements or as  
11   prohibiting compliance with applicable laws, government regulations or PCAOB  
12   requirements, disclosures in court proceedings, in investigations or proceedings under  
13   Sections 11 or 12 of this Act, in ethical investigations conducted by private professional  
14   organizations, or in the course of peer reviews, or to other persons active in the  
15   organization performing services for that client on a need to know basis or to persons in the  
16   entity who need this information for the sole purpose of assuring quality control.**

17  
18   *COMMENT:* This provision is similar to those found in a number of accountancy laws as well  
19   as ethical codes recognizing the confidentiality of client communications to accountants without,  
20   however, extending it to the point of being an evidentiary privilege (which would prevent its  
21   disclosure in court in certain circumstances--essentially, those in which the licensee is not a  
22   party, such as divorce proceedings where one of the parties is a client of the licensee). The term  
23   “peer –review” is defined in section 3(n). The term “licensee” as used in this Section also  
24   includes those using practice privileges inasmuch as Section 23 grants “all the privileges of  
25   licensees of this state” and requires that anyone using practice privileges automatically consents  
26   “to comply with this Act and the Board’s rules.”

1      **SECTION 19**  
2      **LICENSEES' WORKING PAPERS; CLIENTS' RECORDS**

3  
4      **(a) Subject to the provisions of Section 18, all statements, records, schedules, working**  
5      **papers, and memoranda made by a licensee or a partner, shareholder, officer,**  
6      **director, member, manager or employee of a licensee, incident to, or in the course**  
7      **of, rendering services to a client while a licensee except the reports submitted by the**  
8      **licensee to the client and except for records that are part of the client's records, shall**  
9      **be and remain the property of the licensee in the absence of an express agreement**  
10     **between the licensee and the client to the contrary. No such statement, record,**  
11     **schedule, working papers, or memorandum shall be sold, transferred, or**  
12     **bequeathed, without the consent of the client or the client's personal representative**  
13     **or assignee, to anyone other than one or more surviving partners, stockholders,**  
14     **members or new partners, new stockholders, or new members of the licensee, or any**  
15     **combined or merged firm or successor in interest to the licensee. Nothing in this**  
16     **Section should be construed as prohibiting any temporary transfer of working**  
17     **papers or other material necessary in the course of carrying out peer reviews or as**  
18     **otherwise interfering with the disclosure of information pursuant to Section 18.**

19  
20     *COMMENT:* It should be noted that this provision, which is a fairly standard one in  
21 accountancy laws, prohibits the transfer of working papers relating to a particular client without  
22 that client's consent in connection with the sale of a practice. The language regarding peer  
23 review is intended to harmonize this section with Section 18 and make it clear that no licensee,  
24 partner, shareholder, officer, director, member, manager or employee of a licensee may withhold  
25 any material that might be needed to perform a peer review nor interfere with any other  
26 disclosure not prohibited by section 18.

27  
28     **(b) A licensee shall furnish to a client or former client, upon request and reasonable**  
29     **notice-**

- 30  
31        **(1) A copy of the licensee's working papers, to the extent that such working papers**  
32        **include records that would ordinarily constitute part of the client's records**  
33        **and are not otherwise available to the client; and**
- 34  
35        **(2) Any accounting or other records belonging to, or obtained from or on behalf**  
36        **of, the client that the licensee removed from the client's premises or received**  
37        **for the client's account; the licensee may make and retain copies of such**  
38        **documents of the client when they form the basis for work done by the**  
39        **licensee.**

40  
41     *COMMENT:* This subsection reflects a commonly recognized ethical obligation. It seems of  
42 sufficient importance to deserve incorporation in the statute.

43  
44     **(c) Nothing herein shall require a licensee to keep any working papers beyond the**  
45     **period prescribed in any other applicable statute.**

1    *COMMENT:* This subsection is designed to make clear that section 19 does not impose any  
2 new record retention requirement. The retention period may be based on the licensee's  
3 professional judgment and any existing law. The term "licensee" as used throughout this Section  
4 also includes those using practice privileges inasmuch as Section 23 grants "all the privileges of  
5 licensees of this state" and requires that anyone using practice privileges automatically consents  
6 "to comply with this Act and the Board's rules."

1      **SECTION 20**  
2      **PRIVITY OF CONTRACT**

- 3
- 4      (a)     This Section applies to all causes of action of the type specified herein filed on or  
5               after the effective date.
- 6
- 7      (b)     This Section governs any action based on negligence brought against any accountant  
8               or firm of accountants practicing in this State by any person or entity claiming to  
9               have been injured as a result of financial statements or other information examined,  
10               compiled, reviewed, certified, audited or otherwise reported or opined on by the  
11               defendant accountant or in the course of an engagement to provide other services.
- 12
- 13     (c)     No action covered by this Section may be brought unless:
- 14
- 15        (1)    The plaintiff (1) is issuer (or successor of the issuer) of the financial statements  
16               or other information examined, compiled, reviewed, certified, audited or  
17               otherwise reported or opined on by the defendant and (2) engaged the  
18               defendant licensee to examine, compile, review, certify, audit or otherwise  
19               report or render an opinion on such financial statements or to provide other  
20               services; or
- 21
- 22        (2)    The defendant licensee or firm: (1) was aware at the time the engagement was  
23               undertaken that the financial statements or other information were to be made  
24               available for use in connection with a specified transaction by the plaintiff who  
25               was specifically identified to the defendant accountant, (2) was aware that the  
26               plaintiff intended to rely upon such financial statements or other information  
27               in connection with the specified transaction, and (3) had direct contact and  
28               communication with the plaintiff and expressed by words or conduct the  
29               defendant accountant's understanding of the reliance on such financial  
30               statements or other information.
- 31

32      *COMMENT:* This section embodies the common law rule that only persons in a relationship of  
33               privity of contract (i.e., a direct contractual relationship), or a relationship so close as to approach  
34               that of privity, may sue an accountant for negligence. This rule is derived from the seminal  
35               decision of Chief Justice Cardozo of the N.Y. Court of Appeals in *Ultramar Corporation v.  
36               Touche*, 255 N.Y. 170 (1931), which was reaffirmed by that court in *Credit Alliance v. Arthur  
37               Andersen & Co.*, 65 N.Y. 2D 536 (1985). The provision above is specific to licensees and for  
38               that reason it has been included in this UAAUniform Accountancy Act, which is intended to be  
39               comprehensive. In some states, it may be more appropriate to include the above provision in  
40               some other chapter of state law rather than in the accountancy statute.

1      **SECTION 21**  
2      **UNIFORM STATUTE OF LIMITATIONS**

- 3
- 4      (a)    This Section applies to all causes of action of the type specified herein filed on or  
5           after the effective date.
- 6
- 7      (b)    This Section governs any action based on negligence or breach of contract brought  
8           against any licensee, or any CPA or PA firm practicing in this State by any person  
9           or entity claiming to have been injured as a result of financial statements or other  
10          information examined, compiled, reviewed, certified, audited or otherwise reported  
11          or opined on by the defendant licensee as a result of an engagement to provide  
12          services.
- 13
- 14     (c)    No action covered by this Section may be brought unless the suit is commenced on  
15          or before the earlier of:
- 16
- 17        (1)    one year from the date the alleged act, omission or neglect is discovered or  
18           should have been discovered by the exercise of reasonable diligence;
- 19
- 20        (2)    three years after completion of the service for which the suit is brought has  
21           been performed; or
- 22
- 23        (3)    three years after the date of the initial issuance of the accountant's report on  
24           the financial statements or other information.

25

26      *COMMENT:* This section establishes a uniform statute of limitations for accountants'  
27      negligence and breach of contracts actions of one year from the date of discovery of the claim,  
28      but in no event more than three years from the date of the completion of the accounting services  
29      that are the subject of complaint or date of the initial issuance of the accountant's report,  
30      whichever is earliest. It is intended to reduce the uncertainty attending potential liability  
31      exposure under differing state limitations periods. The provision above is specific to licensees  
32      and for that reason it has been included in this UAA Uniform Accountancy Act, which is  
33      intended to be comprehensive. In some states, it may be more appropriate to include the above  
34      provision in some other chapter of state law rather than in the accountancy statute.

1      **SECTION 22**  
2      **PROPORTIONATE LIABILITY**

- 3
- 4      (a) This Section applies to all causes of action of the type specified herein filed on or  
5      after the effective date.
- 6
- 7      (b) This Section governs any claim for money damages brought against any licensee; or  
8      any CPA or PA firm registered, licensed, or practicing in this State; or any  
9      employee or principal of such firm by any person or entity claiming to have been  
10     injured by the defendant licensee or other person or entity.
- 11
- 12     (c) No judgment for money damages may be entered against any licensee, firm,  
13     employee, or principal described in subsection (b) in an action covered by this  
14     Section except in accordance with the provisions of this subsection.
- 15
- 16        (1) If the party seeking a judgment for damages against the licensee proves that  
17        the licensee acted with the deliberate intent to deceive, manipulate or defraud  
18        for the licensee's own direct pecuniary benefit, the liability of the licensee shall  
19        be determined according to the principles that generally apply to such an  
20        action.
- 21
- 22        (2) If the licensee is not proven to have acted with the deliberate intent to deceive,  
23        manipulate or defraud for the accountant's own direct pecuniary benefit, the  
24        amount of the accountant's liability in damages shall be determined as follows:
- 25
- 26            (A) The trier of fact shall determine the percentage of responsibility of the  
27            plaintiff, of each of the defendants, and of each of the other persons or  
28            entities alleged by the parties to have caused or contributed to the harm  
29            alleged by the plaintiff. In determining the percentages of responsibility,  
30            the trier of fact shall consider both the nature of the conduct of each  
31            person and the nature and extent of the causal relationship between that  
32            conduct and the damage claimed by the plaintiff.
- 33
- 34            (B) The trier of fact shall next determine the total amount of damage suffered  
35            by the plaintiff caused in whole or in part by the plaintiff, the defendants,  
36            and other persons alleged to have caused or contributed to the damage.
- 37
- 38            (C) The trier of fact shall then multiply the percentage of responsibility of the  
39            licensee (determined under (A)) by the total amount of damages  
40            (determined under (B)) and shall enter a judgment or verdict against the  
41            licensee in an amount no greater than the product of those two factors.
- 42
- 43            (D) In no event shall the damages awarded against or paid by a licensee  
44            exceed the amount determined under (C). The licensee shall not be  
45            jointly liable on any judgment entered against any other party to the  
46            action.

(E) Except where a contractual relationship permits, no defendant shall have a right to recover from a licensee any portion of the percentage of damages assessed against such other defendant.

**COMMENT:** This section establishes a general principle of proportionate liability in all actions for money damages (both common law and statutory) against accountants except fraud actions. (Fraud actions would continue to be governed by generally applicable rules.) A licensee would be liable for the portion of the plaintiff's injury caused by the licensee's conduct; the accountant would not be required to compensate the plaintiff for harm caused by others. Accountants' liability cases frequently involve situations in which a licensee issues a report on the financial statements of a company that subsequently becomes insolvent or has serious financial difficulties. Investors or creditors who allegedly relied on the audit report sue the accountant and the company. Because the company is often either bankrupt or has no available assets, the licensee is--in a disproportionately large number of cases--the only solvent defendant left to answer the damages claim. Under a rule of joint and several liability, the accountant would be required to bear the burden of the entire damages award, even if the harm was caused principally by others such as the company's management. This provision is intended to prevent that unfair result. The provision above is specific to licensees and, for that reason, it has been included in this UAAUniform Accountancy Act which is intended to be comprehensive. In some states, it may be more appropriate to include the above provision in some other chapter of state law rather than in the accountancy statute.

1       **SECTION 23**  
2       **SUBSTANTIAL EQUIVALENCY**

- 3
- 4       **(a)(1) An individual whose principal place of business is not in this state and who holds a**  
5       **valid license as a Certified Public Accountant from any state which the NASBA**  
6       **National Qualification Appraisal Service has verified to be in substantial**  
7       **equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform**  
8       **Accountancy Act shall be presumed to have qualifications substantially equivalent**  
9       **to this state's requirements and shall have all the privileges of licensees of this state**  
10       **without the need to obtain a license under Sections 6 or 7. Notwithstanding any**  
11       **other provision of law, an individual who offers or renders professional services,**  
12       **whether in person, by mail, telephone or electronic means, under this section shall**  
13       **be granted practice privileges in this state and no notice or other submission shall be**  
14       **provided by any such individual. Such an individual shall be subject to the**  
15       **requirements in 23(a) (3).**
- 16
- 17
- 18       **(2) An individual whose principal place of business is not in this state and who holds a**  
19       **valid license as a Certified Public Accountant from any state which the NASBA**  
20       **National Qualification Appraisal Service has not verified to be in substantial**  
21       **equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform**  
22       **Accountancy Act shall be presumed to have qualifications substantially equivalent**  
23       **to this state's requirements and shall have all the privileges of licensees of this state**  
24       **without the need to obtain a license under Sections 6 or 7 if such individual obtains**  
25       **from the NASBA National Qualification Appraisal Service verification that such**  
26       **individual's CPA qualifications are substantially equivalent to the CPA licensure**  
27       **requirements of the AICPA/NASBA Uniform Accountancy Act. Any individual**  
28       **who passed the Uniform CPA Examination and holds a valid license issued by any**  
29       **other state prior to January 1, 2012 may be exempt from the education requirement**  
30       **in Section 5(c)(2) for purposes of this Section 23 (a)(2). Notwithstanding any other**  
31       **provision of law, an individual who offers or renders professional services, whether**  
32       **in person, by mail, telephone or electronic means, under this section shall be granted**  
33       **practice privileges in this state and no notice or other submission shall be provided**  
34       **by any such individual. Such an individual shall be subject to the requirements in**  
35       **23(a) (3).**
- 36
- 37
- 38       **(3) An individual licensee of another state exercising the privilege afforded under this**  
39       **section and the firm which employs that licensee hereby simultaneously consents, as**  
40       **a condition of the grant of this privilege:**
- 41
- 42       **(A) to the personal and subject matter jurisdiction and disciplinary authority of**  
43       **the Board,**
- 44
- 45       **(B) to comply with this Act and the Board's rules;**
- 46
- 47       **(C) that in the event the license from the state of the individual's principal place of**

1                   **business is no longer valid, the individual will cease offering or rendering**  
2                   **professional services in this state individually and on behalf of a firm; and**

5                   **(D) to the appointment of the State Board which issued their license as their agent**  
6                   **upon whom process may be served in any action or proceeding by this Board**  
7                   **against the licensee.**

9                   **(4) An individual who has been granted practice privileges under this Section who**  
10                  **performs any attest service described in Section 3(b) may only do so through a firm**  
11                  **which meets the requirements of Section 7(a)(1)(C) or which has obtained a permit**  
12                  **issued under Section 7 of this Act.**

15                  *COMMENT:* Subsection 23(a)(3) is intended to allow state boards to discipline licensees from  
16 other states that practice in their state. If an individual licensee is using these practice privileges  
17 to offer or render professional services in this state on behalf of a firm, Section 23(a)(3) also  
18 facilitates state board jurisdiction over the firm as well as the individual licensee even if the firm  
19 is not required to obtain a permit in this state. Under Section 23(a), State Boards could utilize the  
20 NASBA National Qualification Appraisal Service for determining whether another state's  
21 certification criteria are "substantially equivalent" to the national standard outlined in the  
22 AICPA/NASBA UAA Uniform Accountancy Act. If a state is determined to be "substantially  
23 equivalent," then individuals from that state would have ease of practice privileges in other  
24 states. Individuals who personally meet the substantial equivalency standard may also apply to  
25 the National Qualification Appraisal Service if the state in which they are licensed is not  
26 substantially equivalent to the UAA.

28 Individual CPAs who practice across state lines or who service clients in another state via  
29 electronic technology, would not be required to obtain a reciprocal certificate or license if their  
30 state of original certification is deemed substantially equivalent, or if they are individually  
31 deemed substantially equivalent. However, licensure is required in the state where the CPA has  
32 their his or her principal place of business. If a CPA relocates to another state and establishes  
33 their his or her principal place of business in that state or if a firm performs any of the services  
34 described in Section 23(a)(4) and does not qualify for exemption under Section 7(a)(1)(C), then  
35 they the licensee would be required to obtain a license in that state.

37 The provision provides that practice privileges shall be granted and that there shall be no  
38 notification. With the strong Consent requirement (subsection 23(a)(3)), (i) there appears to be  
39 no need for individual notification since the nature of an enforcement complaint would in any  
40 event require the identification of the CPA, (ii) online licensee databases have greatly improved,  
41 and (iii) both the individual CPA practicing on the basis of substantial equivalency as well as the  
42 individual's employer will be subject to enforcement action in any state under Section 23 (a)(3)  
43 regardless of a notification requirement.

45 Implementation of the "substantial equivalency" standard and creation of the National  
46 Qualification Appraisal Service have made a significant improvement in the current regulatory  
47 system and assist in accomplishing the goal of portability of the CPA title and mobility of CPAs

1 across state lines.  
2

3 Section 23(a)(4) clarifies situations in which the individual could be required to provide services  
4 through a CPA firm holding a permit issued by the state in which the individual is using practice  
5 privileges in providing attest services.

6 Section 23(a)(4) in conjunction with companion revisions to Sections 3, 7 and 14, provide  
7 enhanced firm mobility by allowing the individual to use practice privileges in providing attest  
8 services through a firm with a permit from any state so long as the firm complies with the  
9 ownership and peer review requirements. Such firms would only need to obtain permits from  
10 states in which they have an office. The types of attest services and where the services are  
11 performed would not matter. Any firm that does not satisfy both requirements (ownership and  
12 peer review) would have to obtain a permit in the state in which the firm is providing attest  
13 services.  
14

15 In order to be deemed substantially equivalent under Section 23(a)(1), a state must adopt the  
16 150-hour education requirement established in Section 5(c)(2). A few states have not yet  
17 implemented the education provision. In order to allow a reasonable transition period, Section  
18 23(a)(2) provides that an individual who has passed the Uniform CPA examination and holds an  
19 active license from a state that is not yet substantially equivalent may be individually exempt  
20 from the 150-hour education requirement and may be allowed to use practice privileges in this  
21 state if the individual was licensed prior to January 1, 2012.  
22

23 Section 23(a)(3)(D) simplifies ~~s~~State ~~b~~Board enforcement against out-of-state persons using  
24 practice privileges by requiring consent to appointment of the ~~s~~State ~~b~~Board of the person's  
25 principal place of business for service of process. This important provision facilitates the  
26 prerogative of the ~~s~~State ~~b~~Board to administratively discipline or revoke the practice privilege.  
27 This provision supplements Section 9 which provides for the appointment of the Secretary of  
28 State as the agent upon whom process may be served in any action or proceeding against the  
29 applicant arising out of any transaction or operation connected with or incidental to services  
30 performed by the applicant while a licensee within this State.  
31

32  
33  
34  
35 **(b) A licensee of this state offering or rendering services or using their CPA title in  
36 another state shall be subject to disciplinary action in this state for an act committed  
37 in another state for which the licensee would be subject to discipline for an act  
38 committed in the other state. Notwithstanding Section 11(a), the Board shall be  
39 required to investigate any complaint made by the ~~b~~Board of ~~a~~Accountancy of  
40 another state.**  
41

42 *COMMENT:* This section ensures that the Board of the state of the licensee's principal place of  
43 business, which has power to revoke a license, will have the authority to discipline its licensees if  
44 they violate the law when performing services in other states and to ensure that the ~~s~~State ~~b~~Board  
45 of accountancy will be required to give consideration to complaints made by the ~~B~~boards of  
46 Accountancy of other jurisdictions. This ~~S~~subsection combined with ~~S~~subsection 23(a)(3)(C)  
47 (~~which enables~~ing the ~~s~~State ~~b~~Board of the practice privilege state to protect its citizens through

1 administrative proceedings) assures that the ~~s~~State ~~b~~Board has comprehensive disciplinary  
2 powers to protect its state's citizens regarding anyone rendering professional services into or  
3 from its state.

1   **SECTION 24**  
2   **CONSTRUCTION; SEVERABILITY**

3  
4   **If any provision of this Act or the application thereof to any person or entity or in any**  
5   **circumstances is held invalid, the remainder of the Act –and the application of such**  
6   **provision to others or in other circumstances shall not be affected thereby.**

1   **SECTION 25**  
2   **REPEAL OF PRIOR LAW**

3  
4                 (existing legislation) and all other acts or parts of acts in conflict herewith are  
5   hereby repealed, provided, however, that nothing contained in this Act shall invalidate or  
6   affect any action taken or any proceeding instituted under any law in effect prior to the  
7   effective date hereof.

1   **SECTION 26**  
2   **EFFECTIVE DATE**

3  
4   **This Act shall take effect on \_\_\_\_\_.**

5  
6  
7

## **APPENDICESCES**

## **APPENDIX A**

### **LEGISLATIVE POLICY (ANNOTATED)** **AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

- 1. The public interest warrants the licensing and regulation of persons professing expertise in accounting who perform professional accounting services, including the expression of opinions on financial statements and other information upon which the public necessarily relies.**

Protection of the public interest is a basic tenet of society. Good governments, since the beginning of civilization, have enacted laws protecting the health and welfare of the public. These basic human rights are protected, and indeed may only be secure, when the financial resources and economic well being of society are guarded. Today, financial decisions are made, and resources are allocated, by reference to financial reports and other accounting data. These reports and data must be fair and must be believable. Both qualities are enhanced by the professional certified public accountant's work, and that function needs to be regulated for the public's sake.

—The state, under its police power, may pass laws to protect the public against fraud, deception or the consequences of ignorance and incapacity, and may exact the requisite degree of skill and learning of persons in professions and pursuits which affect the public health or welfare, such as accountancy. (Davis v. Allen, 307 S.W.2d 800, Tenn. Ct. App., 1957.)

- 2. There is no such compelling need for licensing and regulation of persons offering record keeping and elementary accounting services performed at the instance of, and for the benefit of, employers and clients. Nor is licensing required in connection with the preparation of tax returns because of regulatory and disciplinary authority presently possessed by the Internal Revenue Service and other taxing authorities.**

Freedom of enterprise is a basic concept of American philosophy that must be evaluated against the public's right to protection when determining activities that need to be regulated. There does not appear to be a compelling public interest in restricting the services noted above to licensed persons only. At the same time, courts have held that the expression of opinions on financial statements and data on which credit grantors, government officials, investors, and other third parties may rely, clearly involves the public interest in such a way as to require regulation. Professional accounting services deemed to merit regulation are perhaps well summarized in a 1964 decision of the Tennessee Court of Appeals. The Court said,

—The Courts have generally recognized that the practice of public accountancy is a highly skilled and technical ... profession and, as such, may be regulated by the legislature within proper limits.... However, the Courts consistently have held that legislation which prohibits noncertified accountants from practicing the profession of accountancy is invalid as it infringes upon rights of contract in matters of purely private concern bearing no perceptible relation to the general or public welfare. And, in so doing, the Courts have indicated that bookkeeping and similar technical services—as contrasted with auditing and

~~expressing opinions on financial statements do not involve a sufficient public interest to permit legislative interference with the normal right of an individual to deal with anyone he chooses.... (State of Tennessee ex rel. State Board of Accountancy v. Bookkeepers Business Service Co., 382 S.W.2d 559, Tenn. Ct. App., 1964.)~~

~~Licensure of tax return preparers would be difficult to administer and ineffective. A major disadvantage is that tax authorities would not automatically obtain information about the returns prepared by a licensee. Without such information, it would be difficult to check on the competence or honesty of the return preparer. Moreover, licensure would not prevent improprieties associated with advertising by commercial tax return preparers and tax return preparers who are unethical. Further, the federal government should be given a fair chance to succeed in its current program of testing methods of regulating tax return preparers.~~

**~~3. The practice of professional accountancy should ultimately be restricted to certified public accountants who have demonstrated competency by passing the Uniform CPA Examination, by fulfilling educational and other requirements, and by continuing to meet professional standards.~~**

~~The licensure and regulation of professionals should be conducted as a professional function. State Boards of Accountancy have as their responsibility the maintenance of adherence to high technical and ethical standards. In this policing activity, Board members should be qualified to judge whether the licensee's professional activities conform with standards established to protect the public interest.~~

**~~4. The enactment of a regulatory accountancy law is not intended to deprive persons who are practicing public accounting as principals at the time of passage of the law of their means of livelihood, and they should be permitted to register as public accountants and become subject to regulation. All further registration or licensing to practice public accountancy should be limited to persons demonstrating their competence as certified public accountants.~~**

~~Registration of public accountants is appropriate to protect the interests of those who at the time of the enactment of a law had been entitled to assume the designation "public accountant." However, provision should not be made for additions to the ranks of public accountants. The intention is to protect the constitutional rights of those already engaged in public accounting not to create a permanent second class of professional accountants. Those who would enter public practice in the future should do so only by satisfying educational and other requirements and by passing the Uniform CPA Examination.~~

**~~5. The accounting profession serves a broad public interest as evidenced by the similarity of accounting needs in all political jurisdictions. In order that it may serve this interest, uniform licensing and regulatory requirements should be established, and unnecessary restrictions of a local character should be avoided.~~**

~~Diversity in requirements for the CPA certificate tends to create confusion over the meaning of the certificate. Further, doubt is raised regarding the comparability of the competence of CPAs. Accounting principles and auditing standards used in the practice of public accounting are national in scope; they are not subject to limitations imposed by geographical boundaries. The~~

~~preponderance of interstate commerce in our economy makes it necessary for qualified accountants to practice across state borders in response to the needs of the public.~~

## **APPENDIX AB**

### **STATEMENT ON STANDARDS FOR CONTINUING PROFESSIONAL EDUCATION (CPE) PROGRAMS**

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## **Introduction**

Continuing professional education is required for CPAs to maintain their professional competence and provide quality professional services. CPAs are responsible for complying with all applicable CPE requirements, rules, and regulations of boards of accountancy, as well as those of membership associations and other professional organizations.

The Statement on Standards for Continuing Professional Education (CPE) Programs (Standards) is published jointly by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to provide a framework for the development, presentation, measurement, and reporting of CPE programs. The Standards were last revised in 2012.

The Standards are periodically reviewed in their entirety by the CPE Standards Working Group (Working Group). The Working Group comprises 13 members representing the various stakeholders in the CPE arena, including boards of accountancy, state societies, educators, CPE providers, and the AICPA. If the Working Group determines that revisions or modifications are required, then the Working Group will make its recommendations to NASBA's CPE Committee (CPE Committee), which, in turn, makes recommendations to the Joint AICPA/NASBA CPE Standards Committee (Joint Committee). The Joint Committee will then make its recommendation to the respective AICPA and NASBA Boards of Directors. Any revisions or modifications to the Standards will be posted to the AICPA and NASBA websites for comment.

The Standards are intended to be an “evergreen” document. As questions arise related to implementation and application of the Standards, the questions will be presented to the Working Group. The Working Group meets quarterly, and scheduled meeting dates are posted on the NASBA website at [www.nasbaregistry.org](http://www.nasbaregistry.org). NASBA will communicate the findings of the Working Group to the specific CPE program sponsor. Authoritative interpretations will only be issued by the CPE Committee in limited cases when the matter is not addressed in the Standards, cannot be addressed specifically with the CPE program sponsor, or cannot be addressed in the “Best Practices” web pages. All interpretations issued by the CPE Committee will be reviewed and considered by the Joint Committee upon the next revision of the Standards.

## Preamble

**1.** The right to use the title “Certified Public Accountant” (CPA) is regulated by each state’s board of accountancy in the public interest and imposes a duty to maintain public confidence by enhancing current professional competence, as defined in the Statement on Standards for Continuing Professional Education (CPE) Programs (Standards), in all areas in which they provide services. CPAs must accept and fulfill their ethical responsibilities to the public and the profession regardless of their fields of employment.<sup>1</sup>

**2.** The profession of accountancy is characterized by an explosion of relevant knowledge, ongoing changes and expansion, and increasing complexity. Advancing technology, globalization of commerce, increasing specialization, proliferating regulations, and the complex nature of business transactions have created a dynamic environment that requires CPAs to continuously maintain and enhance their professional competence.

**3.** The continuing development of professional competence involves a program of lifelong educational activities. Continuing Professional Education (CPE) is the term used in these Standards to describe the educational activities that assist CPAs in achieving and maintaining quality in professional services.

**4.** The following Standards have been broadly stated in recognition of the diversity of practice and experience among CPAs. They establish a framework for the development, presentation, measurement, and reporting of CPE programs and thereby help to ensure that CPAs receive the quality CPE necessary to satisfy their obligations to serve the public interest. The spirit of the Standards is to encourage high-quality learning with measurable objectives by providing baseline requirements. These Standards may also apply to other professionals by virtue of employment or membership. Boards of accountancy have final authority on the acceptance of individual courses for CPE credit.

**5.** Advances in technology, delivery, and workplace arrangements may lead to innovative learning techniques. Learning theory is evolving to include more emphasis on outcome-based learning. These Standards anticipate innovation in CPE in response to these advances. Sponsors must ensure innovative learning techniques are in compliance with the Standards. CPE program sponsors are encouraged to consult with NASBA regarding questions related to compliance with the Standards when utilizing innovative techniques.

**6.** These Standards create a basic foundation for sound educational programs. Sponsors may wish to provide enhanced educational and evaluative techniques to all programs.

<sup>1</sup> The term “CPA” is used in these Standards to identify any person who is licensed or regulated, or both, by boards of accountancy.

## **Article I – Definitions**

**Advanced.** Program knowledge level most useful for individuals with mastery of the particular topic. This level focuses on the development of in-depth knowledge, a variety of skills, or a broader range of applications. Advanced level programs are often appropriate for seasoned professionals within organizations; however, they may also be beneficial for other professionals with specialized knowledge in a subject area.

**Asynchronous.** A learning activity in which the participant has control over time, place and/or pace of learning.

**Basic.** Program knowledge level most beneficial to CPAs new to a skill or an attribute. These individuals are often at the staff or entry level in organizations, although such programs may also benefit a seasoned professional with limited exposure to the area.

**Blended learning program.** An educational program incorporating multiple learning formats.

**Continuing professional education (CPE).** An integral part of the lifelong learning required to provide competent service to the public. The set of activities that enables CPAs to maintain and improve their professional competence.

**CPE credit.** Fifty minutes of participation in a program of learning.

**CPE program sponsor.** The individual or organization responsible for issuing the certificate of completion and maintaining the documentation required by the Statement on Standards for Continuing Professional Education (CPE) Programs (Standards). This term may include associations of CPAs, whether formal or informal, as well as employers who offer in-house programs.

**Evaluative feedback.** Specific response to incorrect answers to questions in self study programs.

**Group Internet based program.** Individual participation in synchronous learning with real time interaction of an instructor or subject matter expert and built-in processes for attendance and interactivity.

**Group live program.** Synchronous learning in a group environment with real-time interaction of an instructor or subject matter expert that provides the required elements of attendance monitoring and engagement.

**Group program.** Any group live or group Internet based programs.

**Independent study.** An educational process designed to permit a participant to learn a given subject under a learning contract with a CPE program sponsor.

**Instructional methods.** Delivery strategies such as case studies, computer-assisted learning, lectures, group participation, programmed instruction, use of audiovisual aids, or work groups employed in group, self-study, or independent study programs or other innovative programs.

**Intermediate.** Program knowledge level that builds on a basic program, most appropriate for CPAs with detailed knowledge in an area. Such persons are often at a mid-level within the organization, with operational or supervisory responsibilities, or both.

**Learning activity.** An educational endeavor that maintains or improves professional competence.

**Learning contract.** A written contract signed by an independent study participant and a qualified CPE program sponsor prior to the commencement of the independent study.

**Learning objectives.** Measurable outcomes that participants should accomplish upon completion of a learning activity. Learning objectives are useful to program developers in deciding appropriate instructional methods and allocating time to various subjects.

**Nano learning program.** A tutorial program designed to permit a participant to learn a given subject in a 10-minute time frame through the use of electronic media (including technology applications and processes and computer-based or web-based technology) and without interaction with a real-time instructor. A nano learning program differs from a self study program in that it is typically focused on a single learning objective and is not paper-based. A nano learning program is not a group program. Nano learning is not a substitute for comprehensive programs addressing complex issues.

**Overview.** Program knowledge level that provides a general review of a subject area from a broad perspective. These programs may be appropriate for professionals at all organizational levels.

**Pilot test.** A method to determine the recommended CPE credit for self study programs that involves sampling of at least three individuals independent of the development team and representative of the intended participants to measure the representative completion time.

**Pre-program assessment.** A method of measuring prior knowledge that is given before the participant has access to the course content of the program.

**Professional competence.** Having requisite technical competence, professional skills, values, ethics, and attitudes to provide quality services as defined by the technical and ethical standards of the profession. The expertise needed to undertake professional responsibilities and to serve the public interest.

**Program of learning.** A collection of learning activities that are designed and intended as continuing education and that comply with these Standards.

**Qualified assessment.** A method of measuring the achievement of a representative number of the learning objectives for the learning activity.

**Reinforcement feedback.** Specific responses to correct answers to questions in self study programs.

**Self study program.** An educational program completed individually without the assistance or interaction of a real-time instructor.

**Social learning.** Learning from one's peers in a community of practice through observation, modeling, and application.

**Synchronous.** A group program in which participants engage simultaneously in learning activity(ies).

**Tutorial.** A method of transferring knowledge that is more interactive and specific than a book, lecture, or article. A tutorial seeks to teach by example and supply the information to complete a certain task.

**Word count formula.** A method, detailed under S17-05 method 2, to determine the recommended CPE credit for self study programs that uses a formula, including word count of learning material, number of questions and exercises, and duration of audio and video segments.

**Update.** Program knowledge level that provides a general review of new developments. This level is for participants with a background in the subject area who desire to keep current.

## **Article II – General Guidelines for CPAs**

**2.1 Professional Competence.** All CPAs should participate in learning activities that maintain or improve, or both, their professional competence.<sup>2</sup>

Selection of learning activities should be a thoughtful, reflective process addressing the individual CPA's current and future professional plans, current knowledge and skill level, and desired or needed additional competence to meet future opportunities or professional responsibilities, or both.

CPA's fields of employment do not limit the need for CPE. CPAs performing professional services need to have a broad range of professional competence. Thus, the concept of professional competence may be interpreted broadly. Accordingly, acceptable continuing education encompasses programs contributing to the development and maintenance of professional skills.

The fields of study, as published on NASBA's website, [www.nasbaregistry.org](http://www.nasbaregistry.org), represent the primary knowledge and skill areas that CPAs need to perform professional services in all fields of employment.

To help guide their professional development, CPAs may find it useful to develop a learning plan. Learning plans are structured processes that help CPAs guide their professional development. They are dynamic instruments used to evaluate and document learning and professional competence development. They may be reviewed regularly and modified as CPAs' professional competence needs change. Plans include a self-assessment of the gap between current and needed professional competence; a set of learning objectives arising from this assessment; and learning activities to be undertaken to fulfill the learning plan.

**2.2 CPE Compliance.** CPAs must comply with all applicable CPE requirements.

CPAs are responsible for compliance with all applicable CPE requirements, rules, and regulations of state licensing bodies, other governmental entities, membership associations, and other professional organizations or bodies. CPAs should contact each appropriate entity to which they report to determine its specific requirements or any exceptions it may have to the standards presented herein.

Periodically, CPAs participate in learning activities that do not comply with all applicable CPE requirements, for example, specialized industry programs offered through industry sponsors. If CPAs propose to claim credit for such learning activities, they must retain all relevant information

<sup>2</sup> The terms "should" and "must" are intended to convey specific meanings within the context of this Joint AICPA/NASBA Statement on Standards for Continuing Professional Education Programs (Standards). The term "must" is used in the Standards and applies to CPAs and CPE program sponsors to convey that CPAs and CPE program sponsors are not permitted any departure from those specific Standards. The term "should" is used in the Standards and applies to both CPAs and CPE program sponsors and is intended to convey that CPAs and CPE program sponsors are encouraged to follow such Standards as written. The term "may" is used in the Standards and applies to both CPAs and CPE program sponsors and is intended to convey that CPAs and CPE program sponsors are permitted to follow such Standards as written.

regarding the program to provide documentation to state licensing bodies and all other professional organizations or bodies that the learning activity is equivalent to one that meets all these standards.

**2.3 CPE Credits Record Documentation.** CPAs are responsible for accurate reporting of the appropriate number of CPE credits earned and must retain appropriate documentation of their participation in learning activities.

To protect the public interest, regulators require CPAs to document maintenance and enhancement of professional competence through periodic reporting of CPE. For convenience, measurement is expressed in CPE credits. However, the objective of CPE must always be maintenance and enhancement of professional competence, not attainment of credits. Compliance with regulatory and other requirements mandates that CPAs keep documentation of their participation in activities designed to maintain or improve, or both, professional competence. In the absence of legal or other requirements, a reasonable policy is to retain documentation for a minimum of five years from the end of the year in which the learning activities were completed.

Participants must document their claims of CPE credit. Examples of acceptable evidence of completion include the following:

- For group, blended learning, and independent study programs, a certificate or other verification supplied by the CPE program sponsor.
- For self-study and nano learning programs, a certificate supplied by the CPE program sponsor after satisfactory completion of a qualified assessment.
- For instruction credit, appropriate supporting documentation that complies with the requirements of the respective state boards subject to the guidelines in Standard No. 20 in Standards for CPE Program Measurement.
- For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received.
- For university or college noncredit courses, a certificate of attendance issued by a representative of the university or college.
- For published articles, books, or CPE programs:
  - A copy of the publication (or in the case of a CPE program, course development documentation) that names the CPA as author or contributor,
  - A statement from the writer supporting the number of CPE hours claimed, and
  - The name and contact information of the independent reviewer(s) or publisher.

**2.4 Reporting CPE Credits.** CPAs who complete sponsored learning activities that maintain or improve their professional competence must claim no more than the CPE credits recommended by CPE program sponsors subject to the state board regulations.

CPAs may participate in a variety of sponsored learning activities. Although CPE program sponsors determine credits, CPAs must claim credit only for activities through which they maintained or improved their professional competence. CPAs who participate in only part of a program must claim CPE credit only for the portion they attended or completed.

**2.5 Independent Study.** CPAs may engage in independent study under the direction of a CPE program sponsor who has met the applicable standards for CPE program sponsors when the subject matter and level of study maintain or improve the CPAs' professional competence.

Independent study is an educational process designed to permit a participant to learn a given subject under the guidance of a CPE program sponsor. Participants in an independent study program must

- a. enter into a written learning contract with a CPE program sponsor that must comply with the applicable standards for CPE program sponsors. A learning contract
  - i. specifies the nature of the independent study program and the time frame over which it is to be completed, not to exceed 15 weeks.
  - ii. specifies that the output must be in the form of
    - (1) a written report that will be reviewed by the CPE program sponsor or a qualified person selected by the CPE program sponsor or
    - (2) a written certification by the CPE program sponsor that the participant has demonstrated application of learning objectives through
      - (a) successful completion of tasks or
      - (b) performance of a live demonstration, oral examination, or presentation to a subject matter expert.
  - iii. outlines the maximum CPE credit that will be awarded for the independent study program, but limits credit to actual time spent.
- b. accept the written recommendation of the CPE program sponsor regarding the number of credits to be earned upon successful completion of the proposed learning activities. CPE credits will be awarded only if
  - i. all the requirements of the independent study as outlined in the learning contract are met;
  - ii. the CPE program sponsor reviews and signs the participant's report;
  - iii. the CPE program sponsor reports to the participant the actual credits earned; and
  - iv. the CPE program sponsor provides the participant with contact information.

The maximum credits to be recommended by an independent study CPE program sponsor must be agreed upon in advance and must be equated to the effort expended to improve professional competence. The credits cannot exceed the time devoted to the learning activities and may be less than the actual time involved.

- c. retain the necessary documentation to satisfy regulatory requirements regarding the content, inputs, and outcomes of the independent study.

## **Article III - Standards for CPE Program Sponsors**

### **3.1 - General Standards**

**Standard No. 1. CPE program sponsors are responsible for compliance with all applicable Standards and other CPE requirements.**

**S1 – 01. CPE requirements of licensing bodies and others.** CPE program sponsors may have to meet specific CPE requirements of state licensing bodies, other governmental entities, membership associations, and other professional organizations or bodies. Professional guidance for CPE program sponsors is available from NASBA; state-specific guidance is available from the boards of accountancy. CPE program sponsors should contact the appropriate entity to determine requirements.

### **3.2 - Standards for CPE Program Development**

**Standard No. 2. Sponsored learning activities must be based on relevant learning objectives and outcomes that clearly articulate the professional competence that should be achieved by participants in the learning activities.**

**S2-01. Program knowledge level.** Learning activities provided by CPE program sponsors for the benefit of CPAs must specify the knowledge level, content, and learning objectives so that potential participants can determine if the learning outcomes are appropriate to their professional competence development needs. Knowledge levels consist of basic, intermediate, advanced, update, and overview.

**Standard No. 3. CPE program sponsors must develop and execute learning activities in a manner consistent with the prerequisite education, experience, and advance preparation of participants.**

**S3-01. Prerequisite education and experience.** To the extent it is possible to do so, CPE program sponsors should make every attempt to equate program content and level with the backgrounds of intended participants. All programs identified as intermediate, advanced or update must clearly identify prerequisite education, experience, and advance preparation in precise language so that potential participants can readily ascertain whether they qualify for the program. For courses with a program knowledge level of basic and overview, prerequisite education or experience and advance preparation must be noted, if any, otherwise, state “none” in course announcement or descriptive materials.

**Standard No. 4. CPE program sponsors must use activities, materials, and delivery systems that are current, technically accurate, and effectively designed. Course documentation must contain the most recent publication, revision, or review date. Courses must be revised as soon as feasible following changes to relative codes, laws, rulings, decisions, interpretations, and so on. Courses in subjects that undergo frequent changes must be reviewed by an individual with subject matter expertise at least once a year to verify the currency of the content. Other courses must be reviewed at least every two years.**

**S4-01. Developed by a subject matter expert.** Learning activities must be developed by individuals or teams having expertise in the subject matter. Expertise may be demonstrated through practical experience or education, or both.

**Standard No. 5. CPE program sponsors of group, self study, nano learning, and blended learning programs must ensure that learning activities are reviewed by qualified persons other than those who developed the programs to assure that the program is technically accurate and current and addresses the stated learning objectives. These reviews must occur before the first presentation of these materials and again after each significant revision of the CPE programs.**

The participation of at least one licensed CPA (in good standing and holding an active license or the equivalent of an “active” CPA license in a U.S. jurisdiction) is required in the development of every program in accounting and auditing. The participation of at least one licensed CPA, tax attorney, or IRS enrolled agent (in good standing and holding an active CPA license or the equivalent of an “active” license in a U.S. jurisdiction) is required in the development of each program in the field of study of taxes. In the case of the subject matter of international taxes, the participation of the equivalent of an “active” licensed CPA for the international jurisdiction involved is permitted. As long as this requirement is met at some point during the development process, a program would be in compliance. Whether to have this individual involved during the development or the review process is at the CPE program sponsor’s discretion.

**S5-01. Qualifications of reviewers.** Individuals or teams qualified in the subject matter must review programs. When it is impractical to review certain programs in advance, such as lectures given only once, greater reliance should be placed on the recognized professional competence of the instructors or presenters. Using independent reviewing organizations familiar with these Standards may enhance quality assurance.

**S5-02. Review responsibilities if content purchased from another entity.** CPE program sponsors may purchase course content from other entities and developers. The organization that issues the certificate of completion under its name to the participants of the program is responsible for compliance with all Standards and other CPE requirements.

If a CPE program sponsor plans to issue certificates of completion under its name, then the CPE program sponsor must first consider whether the content was purchased from an entity registered with NASBA on the National Registry of CPE Sponsors.

- If the content is purchased from a sponsor registered with NASBA on the National Registry of CPE Sponsors, then the CPE program sponsor may maintain the author/developer and reviewer documentation from that sponsor in order to satisfy the content development requirements of the Standards. The documentation should be maintained as prescribed in Standard No. 24.
- If the content is purchased from an entity not registered with NASBA on the National Registry of CPE Sponsors, then the CPE program sponsor must independently review the purchased content to ensure compliance with the Standards. If the CPE program sponsor

does not have the subject matter expertise on staff, then the CPE program sponsor must contract with a qualified individual to conduct the review. The CPE program sponsor must maintain the appropriate documentation regarding the credentials and experience of both the course author/developer(s) and reviewer(s) as prescribed in Standard No. 24.

**Standard No. 6. CPE program sponsors of independent study learning activities must be qualified in the subject matter.**

**S6-01. Requirements of independent study sponsor.** A CPE program sponsor of independent study learning activities must have expertise in the specific subject area related to the independent study. The CPE program sponsor must also

- review, evaluate, approve, and sign the proposed independent study learning contract, including agreeing in advance on the number of credits to be recommended upon successful completion.
- evidence program completion by
  - reviewing and signing the written report developed by the participant in independent study.
  - certifying in writing that the applicant has demonstrated application of learning objectives through successful completion of tasks.
  - certifying in writing that the applicant has performed a live demonstration, oral examination, or presentation to a subject matter expert.
- retain the necessary documentation to satisfy regulatory requirements regarding the content, inputs, and outcomes of the independent study.

**Standard No. 7. Group live programs must employ instructional methods that clearly define learning objectives, guide the participant through a program of learning, and include elements of engagement within the program.**

Whether a program is classified as group live or group Internet based is determined by how the participant consumes the learning (in a group setting or on an individual basis) and not by the technology used in program delivery. Group live examples include but are not limited to: classroom setting with a real time instructor, participation in a group setting calling in to a teleconference, and participation in a group setting watching a rebroadcast of a program with a real time subject matter expert facilitator.

**S7-01. Required elements of engagement.** A group live program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

**S7-02. Real time instructor during program presentation.** Group live programs must have a real time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). Once a group live program is recorded for future presentation, it will continue to be considered a group live program only

when a real time subject matter expert facilitates the recorded presentation. CPE credit for a recorded group live program facilitated by a real time subject matter expert will be equal to the CPE credit awarded to the original presentation.

**S7-03. No real time instructor during recorded program presentation.** A group live program that is recorded for future presentation that does not include a real time subject matter facilitator is no longer a group live program and will be classified as a self study program only if it meets all self study delivery method requirements with the exception of the basis for CPE credit. CPE credit for a recorded group live program not facilitated by a real time subject matter expert will be equal to the CPE credit awarded to the original presentation, or it may be determined by either of the two self study credit determination methodologies described in Standard No. 17: pilot testing or the prescribed word count formula, at the sponsor's discretion.

**Standard No. 8. Group Internet based programs must employ instructional methods that clearly define learning objectives, guide the participant through a program of learning, and provide evidence of a participant's satisfactory completion of the program.**

Whether a program is classified as group live or group Internet based is determined by how the participant consumes the learning (in a group setting or on an individual basis) and not by the technology used in program delivery. Group Internet based examples include but are not limited to: participation in a webcast individually, participation in a broadcast of a group live presentation on an individual basis, and participants calling in to a conference call on an individual basis.

**S8-01. Real time instructor during program presentation.** Group Internet based programs must have a real time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). Once a group Internet based program is recorded for future presentation, it will continue to be considered a group Internet based program only when a real time subject matter expert facilitates the recorded presentation. CPE credit for a recorded group Internet based program facilitated by a real time subject matter expert will be equal to the CPE credit awarded to the original presentation.

**S8-02. No real time instructor during recorded program presentation.** A group Internet based program that is recorded for future presentation that does not include a real time subject matter facilitator is no longer a group Internet based program and will only be classified as a self study program if it meets all self study delivery method requirements, with the exception of the basis for CPE credit. CPE credit for a recorded group Internet based program not facilitated by a real time subject matter expert will be equal to the CPE credit awarded to the original presentation, or it may be determined by either of the two self study credit determination methodologies described in Standard No. 17: pilot testing or the prescribed word count formula, at the sponsor's discretion.

**Standard No. 9. Self study programs must use instructional methods that clearly define learning objectives, guide the participant through a program of learning, and provide evidence of a participant's satisfactory completion of the program.**

**S9-01. Guide participant through a program of learning.** To guide participants through a program of learning, CPE program sponsors of self study programs must elicit participant responses to test for understanding of the material. Appropriate feedback must be provided. Satisfactory completion of the program must be confirmed during or after the program through a qualified assessment.

**S9-02. Use of review questions or other content reinforcement tools.** Review questions must be placed at the end of each learning activity throughout the program in sufficient intervals to allow the participant the opportunity to evaluate the material that needs to be re-studied. If objective type questions are used, at least three review questions per CPE credit must be included or two review questions if the program is marketed for one-half CPE credits. Simulations and other innovative tools that guide participants through structured decisions can be used in lieu of review questions.

After the first full credit and the minimum of three review questions, additional review questions are required based on the additional credit measurement amount of the program as follows:

<u>Additional</u>	<u>Additional Review Questions:</u>
0.2	0
0.4	1
0.5	2
0.6	2
0.8	3
Next full credit	3

**S9-03. Evaluative and reinforcement feedback on review questions.** If the multiple choice method is used, evaluative feedback for each incorrect response must explain specifically why each response is wrong, and reinforcement feedback must be provided for correct responses even when the minimum number of review questions requirement has otherwise been exceeded. If rank order or matching questions are used, then it is permissible to provide single feedback to explain the correct response. Simulations and other innovative tools that guide participants through structured decisions could provide feedback at irregular intervals or at the end of the learning experience. In those situations, single feedback would be permissible. “True or false” questions or review questions that do not meet the evaluative and reinforcement feedback requirements are allowed as review questions, other than when using the multiple choice method. Noncompliant questions are not included in the number of review questions required per CPE credit. Forced choice questions, when used as part of an overall learning strategy, are allowed as review questions and can be counted in the number of review questions required per CPE credit. There is no minimum passing rate required for review questions.

**S9-04. Qualified assessment requirements.** To provide evidence of satisfactory completion of the course, CPE program sponsors of self study programs must require participants to successfully

complete a qualified assessment during or after the program with a cumulative minimum passing grade of at least 70 percent before issuing CPE credit for the course. Assessments may contain questions of varying format (for example, multiple choice, essay, and simulations). At least 5 questions and scored responses per CPE credit must be included on the qualified assessment or 3 assessment questions and scored responses if the program is marketed for one-half CPE credits. For example, the qualified assessment for a 5-credit course must include at least 25 questions and scored responses. Alternatively, a 5 ½ credit course must include at least 28 questions and scored responses. Except in courses in which recall of information is the learning strategy, duplicate review and qualified assessment questions are not allowed. “True or false” questions are not permissible on the qualified assessment.

After the first full credit and the minimum of five questions and scored responses per CPE credit, additional qualified assessment questions and scored responses are required based on the additional credit measurement amount of the program as follows:

<b><u>Additional</u></b>	<b><u>Additional Questions/Scored</u></b>
0.2	1
0.4	2
0.5	3
0.6	3
0.8	4
Next full credit	5

If a pre-program assessment is used in the course, then the pre-program assessment cannot be included in the determination of the recommended CPE credits for the course. If a pre-program assessment is used and feedback is provided, then duplicate pre-program assessment and qualified assessment questions are not permitted. If a pre-program assessment is used and feedback is not provided, then duplicate pre- program assessment and qualified assessment questions are permissible. Feedback may comply with the feedback for review questions as described in S9-03 or take the form of identifying correct and incorrect answers.

A qualified assessment must measure a representative number of the learning objectives for the program. A representative number of the learning objectives is 75 percent or more of the learning objectives for the program. The representative number of the learning objectives can be less than 75 percent of the learning objectives for the program only if a randomized question generator is used, and the test bank used in the creation of the assessment includes at least 75 percent of the learning objectives for the program. Assessment items must be written to test the achievement of the stated learning objectives of the course.

**S9-05. Feedback on qualified assessment.** Providing feedback on the qualified assessment is at the discretion of the CPE program sponsor. If the CPE program sponsor chooses to provide feedback and

- utilizes a test bank, then the CPE program sponsor must ensure that the question test bank is of sufficient size to minimize overlap of questions on the qualified assessment for the typical repeat test taker. Feedback may comply with the feedback for review questions as described in S9-03 or take the form of identifying correct and incorrect answers.
- does not utilize a test bank, whether or not feedback can be given depends on whether the participant passes the qualified assessment, then
  - on a failed assessment, the CPE program sponsor may not provide feedback to the test taker.
  - on assessments passed successfully, CPE program sponsors may choose to provide participants with feedback. This feedback may comply with the type of feedback for review questions as described in S9-03 or take the form of identifying correct and incorrect answers.

**S9-06. Program or course expiration date.** Course documentation must include an expiration date (the time by which the participant must complete the qualified assessment). For individual courses, the expiration date is no longer than one year from the date of purchase or enrollment. For a series of courses to achieve an integrated learning plan, the expiration date may be longer.

**S9-07. Based on materials developed for instructional use.** Self study programs must be based on materials specifically developed for instructional use and not on third-party materials. Self study programs requiring only the reading of general professional literature, IRS publications, or reference manuals followed by a test will not be acceptable. However, the use of the publications and reference materials in self study programs as supplements to the instructional materials could qualify if the self-study program complies with each of the CPE standards.

Instructional materials for self study include teaching materials that are written for instructional educational purposes. These materials must demonstrate the expertise of the author(s). At a minimum, instructional materials must include the following items:

1. An overview of topics
2. The ability to find information quickly (for example, an index, a detailed menu, or key word search function)
3. The definition of key terms (for example, a glossary or a search function that takes a participant to the definition of a key word)
4. Instructions to participants regarding navigation through the course, course components, and course completion
5. Review questions with feedback
6. Qualified assessment

**Standard No. 10. Nano learning programs must use instructional methods that clearly define a minimum of one learning objective, guide the participant through a program of learning, and provide evidence of a participant's satisfactory completion of the program. Satisfactory completion of the program must be confirmed at the conclusion of the program through a qualified assessment.**

**S10-01. Qualified assessment requirements.** To provide evidence of satisfactory completion of the course, CPE program sponsors of nano learning programs must require participants to successfully complete a qualified assessment with a passing grade of 100 percent before issuing CPE credit for the course. Assessments may contain questions of varying format (for example, multiple choice, rank order, and matching). Only two questions must be included on the qualified assessment. “True or false” questions are not permissible on the qualified assessment. If the participant fails the qualified assessment, then the participant must re-take the nano learning program. The number of re-takes permitted a participant is at the sponsor’s discretion.

**S10-02. Feedback on qualified assessment.** Providing feedback on the qualified assessment is at the discretion of the CPE program sponsor. If the CPE program sponsor chooses to provide feedback and

- utilizes a test bank, then the CPE program sponsor must ensure that the question test bank is of sufficient size for no overlap of questions on the qualified assessment for the typical repeat test taker. If the multiple choice method is used, evaluative feedback for each incorrect response must explain specifically why each response is wrong, and reinforcement feedback must be provided for correct responses. If rank order or matching questions are used, then it is permissible to provide single feedback to explain the correct response. Feedback may also take the form of identifying correct and incorrect answers.
- does not utilize a test bank, whether or not feedback can be given depends on whether the participant passes the qualified assessment, then
  - on a failed assessment, the CPE program sponsor may not provide feedback to the test taker.
  - on assessments passed successfully, CPE program sponsors may choose to provide participants with feedback. This feedback may comply with the type of feedback described in the preceding paragraph or take the form of identifying correct and incorrect answers.

**S10-03. Program or course expiration date.** Course documentation must include an expiration date. The expiration date is no longer than one year from the date of purchase or enrollment.

**S10-04. Based on materials developed for instructional use.** Nano learning programs must be based on materials specifically developed for instructional use and not on third-party materials. Nano learning programs requiring only the reading of general professional literature, IRS publications, or reference manuals followed by an assessment will not be acceptable.

Acceptable instructional materials for a nano learning program include intentional, engaged learning activities developed for focused content delivery. Nano learning programs may incorporate techniques such as visuals, slide reinforcements, role play, demonstrations, or use of a white board. The intent of a nano learning program is to transfer knowledge that is interactive—seeking to teach by example—to supply information to understand a specific concept, complete a certain task or computation or to problem-solve or make decisions through role play or demonstration. At a minimum, nano learning programs must include the following items:

1. The learning objective(s) of the program
2. Any instructions that participants need to navigate through the program
3. A qualified assessment

**Standard No. 11. Blended learning programs must use instructional methods that clearly define learning objectives and guide the participant through a program of learning. Pre-program, post- program, and homework assignments should enhance the learning program experience and must relate to the defined learning objectives of the program.**

**S11-01. Guide participant through a program of learning.** The blended learning program includes different learning or instructional methods (for example, lectures, discussion, guided practice, reading, games, case studies, and simulation); different delivery methods (group live, group Internet based, nano learning, or self study); different scheduling (synchronous or asynchronous); or different levels of guidance (for example, individual, instructor or subject matter expert led, or group and social learning). To guide participants through the learning process, CPE program sponsors must provide clear instructions and information to participants that summarize the different components of the program and what must be completed or achieved during each component in order to qualify for CPE credits. The CPE program sponsor must document the process and components of the course progression and completion of components by the participants.

**S11-02. Primary component of blended learning program is a group program.** If the primary component of the blended learning program is a group program, then CPE credits for pre-program, post- program, and homework assignments cannot constitute more than 25 percent of the total CPE credits available for the blended learning program.

**S11-03. Primary component of blended learning program is an asynchronous learning activity.** If the primary component of the blended learning program is an asynchronous learning activity, then the blended learning program must incorporate a qualified assessment in which participants demonstrate achievement of the learning objectives of the program.

**S11-03.1. Qualified assessment requirements.** A qualified assessment must measure a representative number of learning objectives for the program. A representative number of the learning objectives is 75 percent or more of the learning objectives for the program.

### **3.3 - Standards for CPE Program Presentation**

**Standard No. 12.** CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. For CPE program sponsors whose courses are developed for sale or for external audiences, or both (that is, not internal training), CPE program sponsors must make the following information available in advance:

- Learning objectives
- Instructional delivery methods
- Recommended CPE credit and recommended field of study
- Prerequisites
- Program level
- Advance preparation
- Program description
- Course registration and, where applicable, attendance requirements
- Refund policy for courses sold for a fee or cancellation policy
- Complaint resolution policy
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits)

For CPE program sponsors whose courses are purchased or developed for internal training only, CPE program sponsors must make the following information available in advance:

- Learning objectives
- Instructional delivery methods
- Recommended CPE credit and recommended field of study
- Prerequisites
- Advance preparation
- Program level (for optional internal courses only)
- Program description (for optional internal course only)

**S12-01. Disclose significant features of program in advance.** For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (for example, through the use of brochures, websites, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non- educational activities or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund and cancellation policies as well as complaint resolution policies.

**S12-02. Disclose advance preparation and prerequisites.** CPE program sponsors must distribute program materials in a timely manner and encourage participants to complete any advance preparation requirements. All programs must clearly identify prerequisite education, experience, and advance preparation requirements, if any, in the descriptive materials. Prerequisites, if any,

must be written in precise language so that potential participants can readily ascertain whether they qualify for the program.

**Standard No. 13. CPE program sponsors must ensure that instructors are qualified with respect to both program content and instructional methods used.**

**S13-01. Qualifications of instructors.** Instructors are key ingredients in the learning process for any group or blended learning program. Therefore, it is imperative that CPE program sponsors exercise great care in selecting qualified instructors for all group or blended learning programs. Qualified instructors are those who are capable, through training, education, or experience, of communicating effectively and providing an environment conducive to learning. They must be competent and current in the subject matter, skilled in the use of the appropriate instructional methods and technology, prepared in advance, and must strive to engage participants.

**S13-02. Evaluation of instructor's performance.** CPE program sponsors should evaluate the instructor's performance at the conclusion of each program to determine the instructor's suitability to serve in the future.

**Standard No. 14. CPE program sponsors must employ an effective means for evaluating learning activity quality with respect to content and presentation, as well as provide a mechanism for participants to assess whether learning objectives were met.**

**S14-01. Required elements of evaluation.** The objectives of evaluation are to assess participant and instructor satisfaction with specific programs and to increase subsequent program effectiveness. Evaluations, whether written or electronic, must be solicited from participants and instructors for each program session, including self study and nano learning programs, to determine, among other things, whether

- stated learning objectives were met.
- stated prerequisite requirements were appropriate and sufficient.
- program materials, including the qualified assessment, if any, were relevant and contributed to the achievement of the learning objectives.
- time allotted to the learning activity was appropriate.
- individual instructors were effective. (Note: This topic does not need to be included in evaluations for self study and nano learning programs.)

If the instructor is actively involved in the development of the program materials, then it is not necessary to solicit an evaluation from the instructor.

**S14- 02. Evaluation results.** CPE program sponsors must periodically review evaluation results to assess program effectiveness and should inform developers and instructors of evaluation results.

**Standard No. 15. CPE program sponsors must ensure that instructional methods employed are appropriate for the learning activities.**

**S15-01. Assess instructional method in context of program presentation.** CPE program sponsors must assess the instructional methods employed for the learning activities to determine if the delivery is appropriate and effective.

**S15-02. Facilities and technology appropriateness.** Learning activities must be presented in a manner consistent with the descriptive and technical materials provided. Integral aspects in the learning environment that should be carefully monitored include the number of participants and the facilities and technologies employed in the delivery of the learning activity.

### **3.4 - Standards for CPE Program Measurement**

**Standard No. 16. Sponsored learning activities are measured by actual program length, with one 50-minute period equal to one CPE credit. Sponsors may recommend CPE credits under the following scenarios:**

- Group programs, independent study, and blended learning programs – A minimum of one full credit must be awarded initially, but after the first credit has been earned, credits may be awarded in one-fifth increments or in one-half increments (1.0, x.2, x.4, x.5, x.6, x.8, and so on).
- Self study – A minimum of one-half credit must be awarded initially, but after the first full credit has been earned, credits may be awarded in one-fifth increments or in one-half increments (0.5, 1.0, x.2, x.4, x.5, x.6, x.8, and so on).
- Nano learning – Credits must be awarded only as one-fifth credit (0.2 credit). A 20-minute program would have to be produced as two stand-alone nano learning programs.

Sponsors may round down CPE credits awarded to the nearest one-fifth, one-half, or whole credit at their discretion and as appropriate for the instructional delivery method; however, the CPA claiming CPE credits should refer to respective state board requirements regarding acceptability of one-fifth and one-half CPE credits.

Only learning content portions of programs (including pre-program, post-program, and homework assignments, when incorporated into a blended learning program) qualify toward eligible credit amounts. Time for activities outside of actual learning content, including, for example, excessive welcome and introductions, housekeeping instructions, and breaks, is not accepted toward credit.

**S16-01. Learning activities with individual segments.** For learning activities in which individual segments are less than 50 minutes, the sum of the segments would be considered one total program. For example, five 30-minute presentations would equal 150 minutes and would be counted as three CPE credits. When the total minutes of a sponsored learning activity are greater than 50, but not equally divisible by 50, the CPE credits granted must be rounded down to the nearest credit basis depending on the instructional delivery method of the program. For example,

a group live program must be rounded down to the nearest one-fifth, one-half, or whole credit. Thus, learning activities with segments totaling 140 minutes would be granted two and four-fifths CPE credits if using one-fifth increments and two and one-half credits if using one-half increments.

For learning activities in which segments are classified in multiple fields of study, the CPE credits granted should first be computed based on the content time of the total program. Next, the CPE credits granted should be allocated to the fields of study based on the field of study content time. If the sum of the individual segments by field of study content time does not equal the CPE credits computed based on the content time for the total program, then the difference should be allocated to the primary field of study for the program.

**S16-02. Responsibility to monitor attendance.** Although it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient.

**S16-03. Monitoring mechanism for group Internet based programs.** In addition to meeting all other applicable group program standards and requirements, group Internet based programs must employ some type of real time monitoring mechanism to verify that participants are participating during the course. The monitoring mechanism must be of sufficient frequency and lack predictability to ensure that participants have been engaged throughout the program. The monitoring mechanism must employ at least three instances of interactivity completed by the participant per CPE credit. CPE program sponsors should verify with respective boards of accountancy on specific interactivity requirements.

**S16-04. Small group viewing of group Internet based programs.** In situations in which small groups view a group Internet based program such that one person logs into the program and asks questions on behalf of the group, documentation of attendance is required in order to award CPE credits to the group of participants. Participation in the group must be documented and verified by the small group facilitator or administrator in order to authenticate attendance for program duration.

**S16-05. University or college credit course.** For university or college credit courses that meet these CPE Standards, each unit of college credit shall equal the following CPE credits:

- Semester system 15 credits
- Quarter system 10 credits

**S16-06. University or college noncredit course.** For university or college noncredit courses that meet these CPE standards, CPE credit shall be awarded only for the actual classroom time spent in the noncredit course.

**S16-07. Participant preparation time.** Credit is not granted to participants for preparation time, unless the program meets the criteria for blended learning in Standard No. 11.

**S16-08. Committee or staff meetings qualification for CPE credits.** Only the portions of committee or staff meetings that are designed as programs of learning and comply with these Standards qualify for CPE credit.

**Standard No. 17. CPE credit for self study learning activities must be based on one of the following educationally sound and defensible methods:**

**Method 1: Pilot test of the representative completion time**

**Method 2: Computation using the prescribed word count formula**

**If a pre-program assessment is used, the pre-program assessment is not included in the CPE credit computation.**

**S17-01. Method 1 – Sample group of pilot testers.** A sample of intended professional participants must be selected to test program materials in an environment and manner similar to that in which the program is to be presented. The sample group must consist of at least three qualified individuals who are independent of the program development group.

- For those courses whose target audience includes CPAs, the sample group must be licensed CPAs in good standing, hold an active CPA license or the equivalent of an “active” CPA license in a U.S. jurisdiction, and possess the appropriate level of knowledge before taking the program.
- For those sponsors who are subject to various regulatory requirements that mandate a minimum number of CPE credits and offer courses to non-CPAs, those courses do not have to be pilot tested by licensed CPAs.
- For those courses whose target audience includes CPAs and non-CPAs, the sample group must be representative of the target audience and contain both CPAs, as defined previously, and non-CPAs.

**S17-02. Method 1 – CPE credit based on representative completion time.** The sample does not have to ensure statistical validity; however, if the results of pilot testing are inconsistent, then the sample must be expanded or, if the inconsistent results are outliers, the inconsistent results must be eliminated. CPE credit must be recommended based on the representative completion time for the sample. Completion time includes the time spent taking the final examination and does not include the time spent completing the course evaluation or pre-program assessment. Pilot testers must not be informed about the length of time the program is expected to take to complete. If substantive changes are subsequently made to program materials, whether in one year or over a period of years, further pilot tests of the revised program materials must be conducted to affirm or amend, as appropriate, the representative completion time.

**S17-03. Method 1 – Requirement for re-pilot testing.** If, subsequent to course release, actual participant completion time warrants a change in CPE credit hours, re-pilot testing is required to substantiate a change in CPE credit prospectively.

**S17-04. Method 1 – Pilot testing when course is purchased from vendor or other developer.** CPE program sponsors may purchase courses from other vendors or course developers. For purchased courses in which pilot tests were conducted and provided, CPE program sponsors must review results of the course developer's pilot test results to ensure that the results are appropriate. For purchased courses in which no pilot tests were conducted or provided, CPE program sponsors must conduct pilot testing or perform the word count formula as prescribed in method 2.

**S17-05. Method 2 – Basis for prescribed word count formula.** The prescribed word count formula begins with a word count of the number of words contained in the text of the required reading of the self-study program and should exclude any material not critical to the achievement of the stated learning objectives for the program. Examples of information material that is not critical and, therefore, excluded from the word count are course introduction, instructions to the participant, author/course developer biographies, table of contents, glossary, pre-program assessment, and appendixes containing supplementary reference materials.

Again, only course content text that is critical to the achievement of stated learning objectives should be included in the word count formula. If an author/course developer determines, for example, that including the entire accounting rule or tax regulation is beneficial to the participant, the accounting rule or tax regulation should be included as an appendix to the course as supplementary reference material and excluded from the word count formula. Only pertinent paragraphs or sections of the accounting rule or tax regulation required for the achievement of stated learning objectives should be included in the actual text of the course and, therefore, included in the word count formula.

Review questions, exercises, and qualified assessment questions are considered separately in the calculation and should not be included in the word count.

**S17-06. Method 2 – Calculation of CPE credit using the prescribed word count formula.** The word count for the text of the required reading of the program is divided by 180, the average reading speed of adults. The total number of review questions (including those above the minimum requirements), exercises, and qualified assessment questions is multiplied by 1.85, which is the estimated average completion time per question. These two numbers plus actual audio/video duration time (not narration of the text), if any, are then added together and the result divided by 50 to calculate the CPE credit for the self study program. When the total minutes of a self-study program are not equally divisible by 50, the CPE credits granted must be rounded down to the nearest one-half credit, one-fifth credit, or whole credit using the guidelines of Standard No. 16.

$$[(\# \text{ of words}/180) + \text{actual audio/video duration time} + (\# \text{ of questions} \times 1.85)] / 50 = \text{CPE credit}$$

**S17-07. Method 2 – Consideration of audio and video segments in word count formula.** If audio and video segments of a self study program constitute additional learning for the participant (that is, not narration of the text), then the actual audio/video duration time may be added to the time calculation as provided in the prescribed word count formula. If the entire self-study program constitutes a video, then the prescribed word count formula in S17-06 would consist of the actual video time plus the total number of review questions (including those above the minimum requirements), exercises, and qualified assessment questions multiplied by 1.85, divided by 50 (that is, there would be no word count for text used in the formula).

$$[\text{actual audio/video duration time} + (\# \text{ of questions} \times 1.85)] / 50 = \text{CPE credit}$$

**S17-08. Method 2 – Word count formula when course is purchased from vendor or other developer.** CPE program sponsors may purchase courses from other vendors or course developers. For purchased courses in which the word count formula was calculated, CPE program sponsors must review the results of the course developer's word count formula calculation to ensure that results are appropriate. For purchased courses in which the word count formula calculation was not performed or provided, CPE program sponsors must perform the word count formula calculation or conduct pilot testing as described in method 1.

**Standard No. 18. CPE credit for nano learning programs must be based on duration of the program plus the qualified assessment, which, when combined, should be a minimum of 10 minutes. However, one-fifth (0.20 credit) CPE credit is the maximum credit to be awarded for a single nano learning program.**

**Standard No. 19. CPE credit for blended learning programs must equal the sum of the CPE credit determinations for the various completed components of the program. CPE credits could be determined by actual duration time (for example, audio/video duration time or learning content delivery time in a group program) or by a pilot test of the representative completion time as prescribed in S17-01 or word count formula as prescribed in S17-06 (for example, reading, games, case studies, and simulations).**

**Standard No. 20. Instructors and discussion leaders of learning activities may receive CPE credit for their preparation, review, and presentation time to the extent the activities maintain or improve their professional competence and meet the requirements of these Standards. Technical reviewers of learning activities may receive CPE credit for actual review time up to the actual number of CPE credits for the program, subject to the regulations and maximums established by boards of accountancy.**

**S20-01. Instructor CPE credit parameters.** Instructors, discussion leaders, or speakers who present a learning activity for the first time may receive CPE credit for actual preparation time up to 2 times the number of CPE credits to which participants would be entitled, in addition to the time for presentation, subject to regulations and maximums established by the boards of accountancy. For example, for learning activities in which participants could receive 8 CPE credits, instructors may receive up to 24 CPE credits (16 for preparation plus 8 for presentation). For

repeat presentations, CPE credit can be claimed only if it can be demonstrated that the learning activity content was substantially changed, and such change required significant additional study or research.

**S20-02. Presenting a program.** The CPA claiming CPE credits should refer to respective state board requirements.

**S20-03. Technical reviewer CPE credit parameters.** Technical reviewers who review a learning activity for the first time may receive CPE credit for actual review time up to the actual number of CPE credits for the program, subject to regulations and maximums established by boards of accountancy. For repeat technical reviews, CPE credit can be claimed only if it can be demonstrated that the learning activity content was substantially changed, and such change required significant additional study or research.

**Standard No. 21. Writers of published articles, books, or CPE programs may receive CPE credit for their research and writing time to the extent it maintains or improves their professional competence.**

**S21-01. Requirement for review from independent party.** Writing articles, books, or CPE programs for publication is a structured activity that involves a process of learning. For the writer to receive CPE credit, the article, book, or CPE program must be formally reviewed by an independent party. CPE credits should be claimed only upon publication.

**S21-02. Authoring a program.** As a general rule, receiving CPE credits for authoring and presenting the same program should not be allowed. The CPA claiming CPE credits should refer to respective state board requirements.

**Standard No. 22. CPE credits recommended by a CPE program sponsor of independent study must not exceed the time the participant devoted to complete the learning activities specified in the learning contract.**

**S22-01. CPE credits agreed to in advance.** The maximum credits to be recommended by an independent study CPE program sponsor must be agreed upon in advance and must be equated to the effort expended to improve professional competence. The credits cannot exceed the time devoted to the learning activities and may be less than the actual time involved.

### **3.5 - Standards for CPE Program Reporting**

**Standard No. 23. CPE program sponsors must provide program participants with documentation (electronic or paper) of their participation (certificate of completion), which includes the following:**

- **CPE program sponsor name and contact information**
- **Participant's name**
- **Course title**
- **Course field of study**

- **Date offered or completed**
- **If applicable, location**
- **Type of instructional and delivery method used**
- **Amount of CPE credit recommended**
- **Verification by CPE program sponsor representative**
- **Sponsor identification number or registration number, if required by the state boards**
- **NASBA time statement stating that CPE credits have been granted on a 50-minute hour**
- **Any other statements required by boards of accountancy**

**The documentation should be provided as soon as possible and should not exceed 60 days (so that participants can report their earned CPE credits in a timely manner).**

**S23-01. Entity to award CPE credits and acceptable documentation.** The CPE program sponsor is the individual or organization responsible for issuing the certificate of completion and maintaining the documentation required by these Standards. The entity whose name appears on the certificate of completion is responsible for validating the CPE credits claimed by a participant. CPE program sponsors must provide participants with documentation (electronic or paper) to support their claims of CPE credit. Acceptable evidence of completion includes the following:

- For group, blended learning and independent study programs, a certificate or other verification supplied by the CPE program sponsor
- For self study and nano learning programs, a certificate supplied by the CPE program sponsor after satisfactory completion of a qualified assessment
- For instruction or technical review credit, appropriate supporting documentation that complies with the requirements of the respective state boards subject to the guidelines in Standard No.20 in Standards for CPE Program Measurement
- For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received
- For university or college noncredit courses, a certificate of attendance issued by a representative of the university or college
- For published articles, books, or CPE programs:
  - A copy of the publication (or in the case of a CPE program, course development documentation) that names the CPA as author or contributor
  - A statement from the writer supporting the number of CPE hours claimed
  - The name and contact information of the independent reviewer(s) or publisher

**S23-02. Certificate issuance for simultaneous delivery of a group live and group Internet based program.** In circumstances in which the CPE program sponsor is providing simultaneous delivery of a group live and group Internet based program, the CPE program sponsor, at its discretion, may issue the certificate of completion to all program participants by awarding CPE credits under the instructional delivery method attended by the majority of the participants. The delivery and attendance monitoring requirements of the respective instructional delivery methods still apply.

**Standard No. 24. CPE program sponsors must retain adequate documentation (electronic or paper) for a minimum of five years to support their compliance with these standards and the reports that may be required of participants.**

**S24-01. Required documentation elements.** Evidence of compliance with responsibilities set forth under these Standards that is to be retained by CPE program sponsors includes the following:

- Records of participation.
- Dates and locations.
- Author/instructor, author/developer, and reviewer, as applicable, names and credentials. For the CPA and tax attorney acting as an author/instructor, author/developer, and reviewer for accounting, auditing, or tax program(s), the state of licensure, license number, and status of license should be maintained. For the enrolled agent acting in such capacity for tax program(s), information regarding the enrolled agent number should be maintained.
- Number of CPE credits earned by participants.
- Results of program evaluations.
- Program descriptive materials (course announcement information).

Information to be retained by CPE program sponsors includes copies of program materials, evidence that the program materials were developed and reviewed by qualified parties, and a record of how CPE credits were determined.

**S24-02. Maintenance of documentation as basis for CPE credit for self study programs.** For CPE program sponsors using method 1 (pilot tests) as the basis for CPE credit for self study programs, appropriate pilot test records must be retained regarding the following:

- When the pilot test was conducted
- The intended participant population
- How the sample of pilot testers was selected
- Names and credentials and relevant experience of sample pilot test participants
- For CPA pilot testers, the state of licensure, license number, and status of license should be maintained
- A summary of pilot test participants' actual completion time
- Statement from each pilot tester to confirm that the pilot tester is independent from the course development group and that the pilot tester was not informed in advance of the expected completion time

For CPE program sponsors using method 2 (word count formula) as the basis for CPE credit for self- study programs, the word count formula calculation, as well as the supporting documentation for the data used in the word count formula (for example, word count; number of review questions, exercises, and final examination questions; duration of audio or video segments, or both, if applicable; and actual calculation), must be retained.

**S24-03. Maintenance of documentation of element of engagement for group live programs.** In addition to the requirements in S24-01, group live CPE program sponsors must retain the program outline, agenda, speaker notes or other documentation that evidences the element of engagement related to course content during each credit of CPE planned for the group live program.

**S24-04. Maintenance of documentation of instructions and information to participants regarding the components comprising a blended learning program.** In addition to the requirements in S24-01, blended learning CPE program sponsors must retain clear instructions and information that summarizes the different components of the blended learning program and what must be completed or achieved during each component in order to qualify for CPE credits. The CPE program sponsor must also retain documentation of the course progression and what CPE credits were earned by participants upon the completion of the components.

**Effective dates:**

Unless otherwise established by state licensing bodies or other professional organizations, these Standards are to be effective on September 1, 2016, provided however that:

- CPE program sponsors have until December 31, 2016 to comply with the Standards for programs currently under development.
- The Standards must be implemented at the next CPE program review or revision date for all other programs.

## **APPENDIX CB**

### **SUBSTANTIAL EQUIVALENCY**

#### **Introduction**

This appendix sets out guidelines with regard to the substantial equivalency standard that will be administered by the NASBA Qualification Appraisal Service. In determining whether there is substantial equivalency, the keynote is flexibility. The criteria is whether the broad outlines and concepts in this Act have been satisfied rather than a “checkmark” approach that examines whether the state’s law includes all of the detailed provisions in the UAA. Any other approach would not carry out the intention of the historic agreement reached by the AICPA and NASBA with regard to the substantial equivalency standard. The goal is to promote mobility for qualified CPAs. Because the substantial equivalency standard is based on the standards set out in the UAA, the standard also protects the public. The Sections below provide additional detail with regard to the substantial equivalency standard.

#### **A. Substantially Equivalent States**

The criteria for determining whether a state’s CPA qualification requirements are substantially equivalent to the UAA include: good character, completion of the 150 hour education requirement, passage of the Uniform CPA examination and compliance with a one year general experience requirement. A state will be considered substantially equivalent as long as the effective implementation date for the 150 hour education requirement is to occur within six years after the date on which the requirement is enacted.

#### **B. Individuals**

Individual CPAs who personally meet the substantial equivalency standard can personally apply for and utilize the standard even if the CPA qualification requirements in their state are not substantially equivalent. This will maximize mobility for qualified professionals. In reviewing individual applicants, the Qualification Appraisal Service should utilize the same flexible approach that is used with regard to determining whether a state is substantially equivalent to the UAA. For those who cannot use the substantial equivalency standard, if they have four years of experience of the type outlined in Section 5(f) of the UAA they would be eligible for reciprocity under Section 6(c)(1) of the UAA.

#### **C. Grandfathering**

All CPAs licensed as of the date that the state receives its notice of substantial equivalency from the NASBA Qualification Appraisal Service will be eligible to use the substantial equivalency provision with regard to interstate practice. This will promote the substantial equivalency standard, -promote mobility for CPAs and enhance adoption of UAA provisions by the states.

Because the CPAs are already considered competent by their state of licensure, the public is adequately protected under this system of grandfathering CPAs. Those CPAs who wish to obtain reciprocity under the substantial equivalency standard must personally have qualifications substantially equivalent to the UAA.

With regard to individual applicants to the NASBA Qualification Appraisal Service from non-substantially equivalent states, anyone who passed the CPA examination before January 1, 2012 will be eligible personally to obtain substantial equivalency for the purpose of interstate practice even if they have not completed 150 hours of education. Individuals who pass the Uniform CPA examination after January 1, 2012 must complete the 150 hour education requirement in order to be eligible for substantial equivalency.

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# **Uniform**

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# **Accountancy**

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# **Rules**

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**National Association of State Boards of Accountancy**

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*August 2011*

## **Introductory Comments**

**These Uniform Accountancy Rules (“Rules”) have been prepared by the National Association of State Boards of Accountancy (“NASBA”) as part of its continuing effort to update and promote uniformity in the regulatory schemes governing the practice of accountancy in the various jurisdictions.**

**These Rules are keyed to the Uniform Accountancy Act (“Uniform Act”) – Sixth Edition in several respects. Like most rules of administrative agencies they are intended in a general sense to implement or to explain specific statutory provisions governing the operations of the agency concerned; thus, in those cases where it appears appropriate for a Rule to contain a reference to a statutory provision, the reference provided in these Rules is to a provision of the Uniform Act. The organizing pattern of the Rules also reflects that of the Uniform Act: the numbered Articles under which the Rules are grouped correspond to section numbers in the Uniform Act.**

**The Rules are not intended to depend entirely upon the Uniform Act, or to be suitable for adoption only in jurisdictions where the accountancy law corresponds to the Uniform Act. Where the law that is in force varies from the Uniform Act, modifications may be necessary to adapt the Rules to the pertinent statute.**

## **Preamble**

These Rules are adopted by the \_\_\_\_\_ Board of Accountancy, pursuant to its authority under the [Public] Accountancy Act of 20\_\_. Their purpose is to promote and protect the public interest by implementing the provisions of that Act, which provide for the issuance and renewal of certificates as certified public accountants; the renewal of registrations to public accountants; the issuance and renewal of permits to firms; and the regulation of licensees, all to enhance the reliability of information which is used for guidance in financial transactions or accounting for or assessing the financial status or performance of commercial, noncommercial and governmental enterprises.

**Rule 10-4 Model Code of Conduct.**

~~A licensee shall comply with the principles contained in the following Model Code of Conduct. All changes in the NASBA Model Code of Conduct shall automatically be made a part of these rules unless specifically rejected by the Board.~~

**NASBA Model Code of Conduct**

**PREAMBLE**

~~The public places trust and confidence in the profession and the services it provides; consequently, licensees have a duty to conduct themselves in a manner that will be beneficial to the public and which fosters such trust and confidence. This Model Code of Conduct identifies seven fundamental principles of conduct, six of which are intended to govern licensees' professional performance whether they are in public practice, industry, not-for-profit organizations, government, education or other professional endeavors. The seventh principle, independence, applies only to those professional services where it is required by professional standards. This Model Code of Conduct defines the conduct that the public has a right to expect of the licensee, as well as all persons or entities the licensee has the authority or capacity to control.~~

~~With the exception of independence, these principles are universal and apply to all services and activities performed by the licensee in all aspects of his or her professional conduct. Independence, however, is a unique principle that applies only to those professional services where it is required in accordance with professional standards. This Model Code of Conduct is not intended to replace professional standards applicable to specific engagements. In applying any of the principles of this Model Code of Conduct to deliberations in disciplinary or other proceedings, the Board may consider as persuasive, but not necessarily conclusive, and/or adopt by reference applicable interpretations and rulings of the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants, as well as similarly applicable interpretations and rulings issued by other authorities such as the Securities and Exchange Commission, the Government Accountability Office and the Public Company Accounting Oversight Board.~~

~~Users of the licensee's services draw confidence from the knowledge that the profession is bound to a framework which requires continued dedication to professional excellence and commitment to ethical behavior that will not be subordinated to personal gain.~~

**I. PRINCIPLE: PUBLIC INTEREST**

~~The grant of a license indicates that an individual has met the criteria established by state boards of accountancy to perform services in a manner that protects the public interest. The licensee must, therefore, have a keen consciousness of the public interest. The public consists of clients, credit grantors, governments, employers, investors, the business and~~

~~financial community, and others who use the services of licensees. Services provided by licensees support and facilitate many societal needs, including the orderly functioning of commerce and the capital markets.~~

~~Because the licensee is seen as a representative of the profession by the public who retains or employs him or her or uses his or her services, the licensee should avoid conduct that might conflict with the public interest or erode public respect for, and confidence in, the profession.~~

## **II. PRINCIPLE: INTEGRITY**

~~Integrity is a character trait demonstrated by acting honestly, candidly, and not knowingly misrepresenting facts, accommodating deceit, or subordinating ethical principles. Acting with integrity is essential to maintaining credibility and public trust. It incorporates both the spirit and substance in the application of the ethical and technical standards that govern the profession, or in the absence thereof, what is just and right.~~

~~A licensee should act with integrity in the performance of all professional activities in whatever capacity performed.~~

## **III. PRINCIPLE: OBJECTIVITY**

~~Objectivity is a distinguishing feature of the accounting profession and is critical to maintaining the public's trust and confidence. It is a state of mind that imposes the obligation to be impartial and free of bias that may result from conflicts of interest or subordination of judgment. Objectivity requires a licensee to exercise an appropriate level of professional skepticism in carrying out all professional activities.~~

~~Although a licensee may serve multiple interests in many different capacities, objectivity must be maintained. This requires a careful assessment of the effects on objectivity of all professional relationships and activities.~~

~~A licensee should maintain objectivity in the performance of all professional activities in whatever capacity performed.~~

## **IV. PRINCIPLE: DUE CARE**

~~Due care imposes the obligation to perform professional activities with concern for the best interest of those for whom the activities are performed and consistent with the profession's responsibility to the public. It is essential to preserving the public's trust and confidence. Due care requires the licensee to discharge professional responsibilities with reasonable care and diligence and to adequately plan and supervise all professional activities for which he or she is responsible.~~

~~A licensee should act with due care in the performance of all professional activities in whatever capacity performed.~~

#### **V. PRINCIPLE: COMPETENCE**

~~Competence is derived from a combination of education and experience. It begins with a mastery of the common body of knowledge, skills, and abilities, and requires a commitment to lifelong learning and professional improvement. A licensee should possess a level of competence, sound professional judgment, and proficiency to ensure that the quality of his or her activities meets the high level of professionalism required by these Principles. A licensee is responsible for assessing his or her own competence, which includes evaluating whether education, experience, and judgment are adequate for the responsibility assumed.~~

~~A licensee should be competent in the performance of all professional activities, in whatever capacity performed, and comply with applicable professional standards.~~

#### **VI. PRINCIPLE: CONFIDENTIALITY**

~~A licensee has an obligation to maintain and respect the confidentiality of information obtained in the performance of all professional activities. Maintaining such confidentiality is vital to the proper performance of the licensee's professional activities.~~

~~A licensee shall not use or disclose, or permit others within the licensee's control to use or disclose, any confidential client or employer information without the consent of the client or employer. This obligation continues after the termination of the relationship between the licensee and the client or employer and extends to information obtained by the licensee in professional relationships with prospective clients and employers.~~

~~This principle shall not be construed to prohibit a licensee from disclosing information as required to meet professional, regulatory or other legal obligations.~~

#### **VII. PRINCIPLE: INDEPENDENCE**

~~Independence, where required by professional standards, is essential to establishing and maintaining the public's faith and confidence in, and reliance on, the information reported on by the licensee.~~

~~A licensee in the practice of public accounting should be independent in fact and appearance when engaged to provide services where independence is required by professional standards. Independence in fact is the state of mind that permits a licensee to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing the licensee to act with integrity and exercise objectivity and professional skepticism. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party, having knowledge~~

~~of all relevant information, to reasonably conclude that the integrity, objectivity or professional skepticism of a licensee had been compromised.~~