

A periodic publication to assist State Boards of Accountancy and other interested parties stay current with AICPA regulatory initiatives, issues, and changes in the accounting profession.

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OVERVIEW

Welcome to the Spring 2010 edition of State Regulatory Update – a periodic publication by the AICPA’s State Regulation & Legislation Team. This publication is designed to provide news and information regarding issues that are of interest to state boards of accountancy.

EXAM CONTRACT EXTENSION

The AICPA, the National Association of State Boards of Accountancy (NASBA) and Prometric have extended until 2024 their contract to jointly offer the CPA Examination in the United States.

The 10-year extension of the exam contract from 2014 to 2024 continues the successful collaboration of the three organizations in the delivery of the computer-based examination for the past six years,

Under the partnership, the AICPA is responsible for developing and scoring the Uniform CPA Exam; NASBA is responsible for the National Candidate Database; and Prometric, a wholly owned subsidiary of ETS, is responsible for examination delivery at authorized test centers. More than 1 million exam sections have been administered by computer. About 93,000 candidates took the examination last year setting a record for testing volume.

The Uniform CPA Examination is a state-of-the-art licensure examination – technologically advanced, psychometrically sound and poised for an additional round of innovations and improvements to be implemented in 2011. For additional information on the Uniform CPA Exam, please visit the website at www.cpa-exam.org or contact Michael Decker at mdecker@aicpa.org.

ALLOWING CPA CANDIDATES TO SIT AT 120 BUT BE LICENSED AT 150

The AICPA’s Board of Directors recently reaffirmed its position in the AICPA/NASBA UAA that CPA candidates need to have completed 150-hours of education prior to sitting for the CPA Exam (UAA Section 5c). The Board conducted a comprehensive review of the impact and implications of allowing candidates to sit for the Exam prior to completion of their education after NASBA released a discussion paper on the topic in the Spring of 2008 and after a succession of states that had previously enacted the UAA 150-hour requirement, reverted to allowing 120-hours of education to sit for the exam. Each state, however, retained 150-semester hours as a requirement for licensure.

In conducting the review, concern was raised that there may be a growing number of CPA candidates sitting for the exam at 120-hours who don’t go on to earn the remaining credit hours and/or experience to become licensed. By not pursuing licensure, these individuals contradict one of the main arguments for the change to 120 hours - to increase the “pipeline” of people entering the

profession. Although they never earn the CPA credential, these individuals could claim that they are qualified to provide accounting services because they have passed the CPA exam, thereby threatening the 150-hour requirement for licensure, as well as posing a risk to public protection, since these individuals will never be under the regulation of state boards of accountancy.

It is unknown how many individuals fall into the category of having passed the CPA exam but have never completed the requirements for licensure. During the course of the AICPA Board's review, it was discovered that state boards do not maintain statistical information in this area. Moreover, no one monitors these individuals or encourages them to pursue licensure.

The AICPA hopes to work with NASBA and state boards of accountancy to monitor candidates that pass the CPA Examination but do not pursue licensure. The goal is to learn why these candidates aren't pursuing licensure and to show them the value of becoming CPAs. For more information, please contact Suzanne Jolicoeur at sjolicoeur@aicpa.org.

WASHINGTON UPDATE

IFRS

The Securities and Exchange Commission (SEC) recently approved 2015 as the earliest possible date for the required use of International Financial Reporting Standards (IFRS) by US public companies. In approving the new timeline, the SEC called for more study and a 2011 vote on mandating IFRS. The AICPA said it supports the thoughtful and concrete steps the SEC is taking to prepare for the transition toward a single set of high quality, globally accepted accounting standards for public companies.

The SEC also decided not to pursue early adoption of IFRS and withdrew the proposed rules that would have allowed certain US companies to use IFRS prior to 2014. SEC staff will continue to work on a plan for IFRS adoption and will provide written public reports on its progress beginning in October 2010.

Consumer Financial Protection Agency

Senate Banking Committee Chair Christopher Dodd (D-CT) introduced legislation Monday housing the proposed consumer protection agency inside the Federal Reserve. The head of the new Bureau of Consumer Financial Protection would be appointed by the President and confirmed by the Senate. The bureau would have an independent budget, and would have the authority to enact regulations.

Although this would be a change to the free standing agency that President Obama originally proposed, Chairman Dodd believes the bureau would have appropriate independence. Protection of consumers has been the major point holding up progress in the Senate on legislation to overhaul the financial system. After months of negotiating over a proposed bipartisan compromise, Senator Dodd moved forward on his own with legislation that he said incorporates ideas from both Democrats and Republicans. Where the agency is housed appears now to be less of a concern, as opposed to how much power, independence and funding the agency will have.

The House has already passed legislation creating a stand-alone consumer agency. As originally introduced the House bill broadly defined financial activity to include acting as a financial adviser including tax return preparation, tax-planning advice, financial planning advice, general advice to small businesses and family businesses, tax audit representation, estate and retirement planning, forensic accounting and valuations. However, the version of the bill that passed the House in December 2009, exempts CPAs from any new and duplicative regulation by the Consumer Financial Protection Agency. Similar language is

also in the Senate proposal.

Timing on any Senate floor action on the legislation will depend on progress with the jobs bill and health care reform. Since the Senate and House bills will need to be reconciled, the bills will have to go back to both houses before going to the president for signing.

For more information please see the *CPA Letter Daily*:

http://www.smartbrief.com/news/cpa/storyDetails.jsp?issueid=E2F1F201-EBAD-4BF2-B612-3EC3DFCEB9E2©id=5E903F49-BC50-4077-9EF7-EE98892E860E&brief=cpa&sb_code=rss&&campaign=rss

Red Flag Rule

For the third time since November 1, 2008, the effective date of the Federal Trade Commission's Red Flag Rule has been delayed. The rule's new effective date is June 1, 2010. The Red Flag Rule, which was released in 2007, is designed to help prevent identity theft. The Rule applies to financial institutions and creditors, which are defined as businesses that regularly provide goods or services first and allow customers to pay later. As first proposed, it appeared that these rules would apply to CPAs and CPA firms that bill clients for services performed.

In November 2009, the AICPA filed a lawsuit seeking to bar the Federal Trade Commission from applying the Rule to CPAs. The lawsuit filed in US District Court for the District of Columbia, argues that the FTC is exceeding its authority under the Fair and Accurate Credit Transaction Act of 2003 by applying the rule to CPAs engaged in the practice of accounting. The AICPA contends there is no foreseeable risk of identity theft, since CPAs already adhere to strict privacy requirements.

Prior to filing the lawsuit, the AICPA had requested the FTC exempt CPAs from provisions of the rule. In October 2009, the US District Court for the District of Columbia issued a ruling barring the FTC from applying its Red Flag Rule to attorneys. The FTC has since appealed the ruling to the DC Circuit Court of Appeals.

Comptroller General

The AICPA announced in December its support of HR 4410 introduced by Representatives Michael Conway and Collin Peterson to require the Comptroller General of the United States be a certified public accountant. The bill would also require the Comptroller General meet certain minimum qualifications including having significant management experience in government, accounting and auditing. A bipartisan group of 5 Senate and 5 House members would nominate at least three candidates to the President for the 15 year term of office. The President's nominee would then need to be confirmed by the Senate.

The Comptroller General's position has been vacant since 2008 when former Comptroller General David Walker, who is a CPA, resigned. For more information contact Mat Young at myoung@aicpa.org.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ON THE UNIFORM CPA EXAMINATION

In recent months, the AICPA's Board of Examiners (BOE) has received inquiries concerning the BOE's testing of International Financial Reporting Standards (IFRS) on the CPA Examination. The following Frequently Asked Questions explain the BOE's rationale.

When will IFRS be included on the CPA Examination?

In 2011, when new Content and Skill Specifications (CSOs/SSOs) for the Uniform CPA Examination go into effect, IFRS will be eligible for testing on the Uniform CPA Examination.

Why was it decided to include IFRS on the CPA Examination?

The decision to include IFRS on the CPA Examination was based on a determination that knowledge of IFRS is currently required of entry-level CPAs. A practice analysis was used to make this determination.

What criteria were applied in making the decision to test IFRS on the CPA Examination?

The criteria for determining whether any content should be tested are: whether it is relevant to the work of entry-level CPAs and, if it is relevant, then the importance and frequency of the content to the work of entry-level CPAs is determined. IFRS met these criteria. Based on the practice analysis, it was determined that IFRS is part of current entry-level CPA practice, notwithstanding the fact that IFRS and US GAAP have not yet fully converged.

Where do entry-level CPAs currently work with IFRS?

CPAs currently work with IFRS in many settings. For example, in US companies that are owned by international entities, entry-level CPAs use IFRS in preparing reporting packages; in US companies that own international entities, entry-level CPAs work on converting IFRS financials to US GAAP. In addition, entry-level CPA auditors use IFRS when auditing companies or subsidiaries that report in IFRS.

Will US GAAP continue to be tested on the CPA Examination in addition to IFRS?

Yes. For the foreseeable future, both US GAAP and IFRS will be included on the CPA Examination. Entry-level CPAs will need to be conversant with both.

Will IFRS be tested in one or more CPA Examination section(s)?

IFRS may be tested in more than one CPA Examination section.

Will IFRS be tested in one or more question format(s)?

IFRS may be tested in more than one question format.

Will international standards – other than IFRS – also be included on the CPA Examination?

Yes. For example, International Standards on Auditing (ISAs), International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants, and International Accounting Standards will be eligible to be tested.

What should candidates remember as they prepare for international content on the CPA Examination?

The integration of IFRS and other international standards into the CPA Examination will be gradual. International standards will begin to be tested in 2011 but US standards will continue to be included on the examination.

What is the best source of information about the testing of international content on the CPA Examination?

The best source is the new Content and Skill Specification Outlines (CSOs/SSOs) available at: <http://www.cpa-exam.org/download/CSOs-SSOs-Final-Release-Version-effective-01-01-2011.pdf>

NEW AICPA WEB SITE

The countdown is on! In a little more than a month, the AICPA will launch its new *AICPA.org* web site. Built from the ground up, the new *AICPA.org* was designed with the needs of users in mind. Not only does the site have a new look and feel to it, but it marries modern functionality with increased

accessibility. Since it will be accessible from www.aicpa.org, there's no need to change bookmarks or homepage URLs.

Designed to be the essential site for CPAs, the site's innovative features will allow visitors to:

- Get the latest information and resources from AICPA news
- Tune in to AICPA TV to view profession-related videos
- Quickly find information with a powerful search engine
- Easily navigate the site with intuitive tabs
- Manage e-newsletter and magazine subscriptions
- Subscribe to RSS feeds for instant news updates
- Seamlessly search between AICPA.org and CPA2Biz.com
- Easily manage account and log in with a new single sign-on feature
- Learn how to become a CPA
- Connect to the AICPA's social networking sites on Facebook, Twitter and LinkedIn
- Access live, chat based online help during business hours

In addition, AICPA members will also be able to:

- View exclusive, members-only pages containing information only available to AICPA members, section members and credential holders
- Manage their profiles and preferences
- Use tools and resources such as job postings, mentoring resources and work/life balance information designed to help CPAs manage their careers
- Volunteer their services
- Manage their account, including making dues payments and changing their username and password

The State Regulation and Legislation Team will have an enhanced web page with information and resources board of accountancy members will find helpful. The new site will provide information on state legislative and regulatory issues, the Uniform Accountancy Act, as well as resources for the implementation of CPA mobility. For more information contact Ann Pallasch at apallasch@aicpa.org.

PEER REVIEW UPDATE

Increasing Transparency

Currently, all 42 peer review Administering Entities (AEs), representing state societies as well as the National Peer Review Committee, are participating in Facilitated State Board Access (FSBA). In early February, staff surveyed state board executive directors, in jurisdictions requiring peer review, regarding usage, satisfaction and future intent. To date, 41 jurisdictions have responded. In March 2010, Jim Brackens, VP – Firm Quality and Practice Monitoring, will discuss FSBA and the survey during the breakfast roundtable at NASBA's Annual Conference for Executive Directors and State Board Staff.

Administering Entity Oversight Visits

The AICPA Peer Review Board (PRB) performs visits to each peer review AE ordinarily at least once every other year as part of the PRB's oversight of the peer review program. Effective January 1, 2006, the PRB implemented a model to document the results of each AE visit. The model was designed specially with the public in mind. The documents articulate the PRB's findings with respect to the AE's administration of the Program in a user friendly format. Since January 1, 2006, the PRB has published the results of its AE oversight visits on *AICPA.org*. Once the PRB completes and accepts an oversight, the most recently accepted documents are posted on the web. For more information please see [Administering Entity Oversight Visit Results](#).

Peer Reviewer Pool

In December 2009, sub-groups of the AICPA PRB's Education and Communication Task Force (ECTF) met to discuss the multi-pronged approach to attract new peer reviewers and retain existing reviewers. Topics included: Promoting Peer Review as an Element of Quality Control; Using Mentoring to Engage Reviewers; Enhancing State Committee Participation and Serving as a Concierge to New Reviewers. The ECTF plans to focus on succession planning, serving as a concierge to new reviewers and using mentoring to engage reviewers in spring 2010.

PROFESSIONAL ETHICS UPDATE

The AICPA's Professional Ethics Division staff developed [three new answers to frequently asked questions](#) (FAQs) regarding performance of non-attest services. The examples used in all three FAQs relate to services clients may request concerning the implementation of or conversion to International Financial Reporting Standards [IFRSs] and eXtensible Business Reporting Language [XBRL].

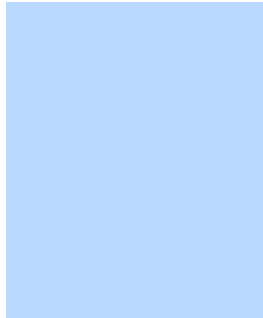
One FAQ provides guidance about the impact training a client on its financial reporting system or process can have on a CPA's independence. Specifically, the FAQ explains that a CPA's independence would not be impaired if the CPA provides client personnel with a general understanding of the financial reporting system or process, however, if more extensive training is provided, the CPA should ensure that the services do not involve supervising client personnel or performing other management responsibilities.

The other two FAQs provide insight into when project management services may impair a CPA's independence. The first project management FAQ explains that taking responsibility for the management of a client's project would impair a CPA's independence even if the project did not impact the client's financial statements. This FAQ further explains that independence would not be impaired if management makes all decisions related to the project and the CPA's involvement was limited to providing assistance, advice, suggestions and/or recommendations regarding matters that are within the CPAs area of knowledge or experience.

CONTACT INFORMATION

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