

CALIFORNIA BOARD OF ACCOUNTANCY FINAL STATEMENT OF REASONS

CPA Exam Revisions and Early Entry

Hearing Date

No hearing date has been scheduled.

Subject Matter of Proposed Regulations

Early Entry to the Uniform Certified Public Accountant Uniform Examination (CPA Exam) prior to completing educational requirements and changes to the CPA Exam under the CPA Evolution Licensure Model.

Section(s) Affected

Title 16, California Code of Regulations (CCR), Division 1, sections 6, 7.1, 7.3, 8.2, 9.2, 9.3 and 13.

Updated Information

The Initial Statement of Reasons is included in the file and is incorporated herein. The information contained therein is updated as follows:

Substantial and non-substantive changes have been made to the originally approved and noticed text. Below is a description of the modifications that were made to the text:

Title 16 of the California Code of Regulations (CCR) section¹ 7.1(b) was modified to update the rolling period from “18” to “30.”

CCR section 7.1(b) and 7.1(c) was modified to remove references of a specified rolling period and update “for 18 months” to “for the applicable rolling period as defined in 7.1(a) or (b)” and to update and remove “18-month period.”

These amendments will increase the timeline for a candidate to pass all parts of the CPA Exam from the current 18-month period to 30 months allowing greater flexibility for licensure candidates. Additionally, these amendments will increase consistency among state boards and help to reduce confusion between each states differing board policies.

The changes to remove references of a specified rolling period and replace them with cross-references improve the clarity of the regulatory text by ensuring any subsequent change to the rolling period length does not require conforming changes across the regulation. Instead, the length can be changed in the one place it is explicitly stated, and all remaining references can be left unchanged.

¹ All references are to title 16 of the California Code of Regulations.

A non-substantive edit was made to add “period” to CCR section 7.1(c) due to an unintentional deletion of “period” after California Board of Accountancy (CBA) approval that was included in the public comment version of the text.

The California Board of Accountancy (CBA) held a 45-day comment period from May 26, 2023, through July 11, 2023. Written comments, including those sent by mail, facsimile, and e-mail were accepted during the comment period. Two written comments were received by the CBA within the comment period. The CBA considered all written comments at its July 27-28, 2023, board meeting, accepted the comments, and voted to accept the proposed text as modified. This vote also included a provision that, should no comments be received during the comment period, the Board would adopt the text as modified.

The CBA held a 15-day comment period from August 3, 2023, through August 18, 2023. No written comments were received during the comment period.

Rationale

At its July 2023 meeting, upon consideration of comments submitted during the 45-day comment period, the CBA approved amended regulatory text to increase the conditional credit rolling period from 18 months to 30 months effective January 1, 2024.

The amendment allows for uniformity across jurisdictions administering the CPA Exam and allows applicants an additional year to complete their exam. The additional year recognizes applicants are juggling work/ life responsibilities while also studying and passing the CPA Exam sections. Under the current 18-month rolling period, candidates may have to sit and pass sections of the examination during traditionally busy accounting seasons; an additional 12 months may alleviate the need to study and pass the exam during this intense work period.

Local Mandate

There are no local mandates imposed on local agencies or school districts.

Small Business Impact

The proposed regulations only apply to individuals applying to sit for the Uniform CPA Examination and would have no significant impact on small businesses.

Benefits Anticipated from Regulatory Action

The transition to the revised CPA Exam will transform the CPA licensure model to recognize the rapidly changing skills and competencies the practice of accounting requires today and will require in the future with a focus on the most important and relevant topics that all newly licensed CPAs need to know to protect the public interest. This is a necessary change given the current version of the test will no longer be

available once the new version is launched by the AICPA.

Additionally, this action will standardize the process used by an applicant who applies to sit for the CPA Exam early. By clarifying what must be submitted to document an applicant meets the requirements established by BPC 5093.5 for early entrance to the CPA Exam, the CBA anticipates that more early entry applicants will be able to provide evidence at time of application. For example, the Certificate of Enrollment Form(s) (COE-1 (New 7/2022)) will provide proof of, and enable the CBA to identify, that an early entry applicant is enrolled in a degree-granting university, college, or other institution of learning (hereinafter referred to as college/university) and is within 180 days of completing the necessary educational requirements. Without such a regulation, applicants are not clear on what to submit to meet these requirements.

Additionally, this action will implement the early entry provisions in a manner that is supported by the NASBA test administration infrastructure used by all the jurisdictions that administer the CPA Exam. By establishing provisions that define when exam credits are conditional and when those conditions can be removed, it ensures applicants cannot bypass meeting the educational requirements established in statute.

Additionally, the repeal of CCR, title 16, section 13 will improve clarity and understanding of the educational requirements for applicants. CCR, title 16, section 13 is applicable to a point in time when there were two pathways available for applicants to meet the education and experience requirements for examination and licensure. Repealing CCR, title 16, section 13 is necessary as BPC section 5092 that set forth Pathway 1 became inoperative on January 1, 2014 and there is currently only one pathway.

Consideration of Alternatives

No reasonable alternative to the regulatory proposal would be either more effective in carrying out the purpose for which the action is proposed or would be as effective or less burdensome to affected private persons and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the law being implemented or made specific. Further, there is no adverse impact on small businesses; for this reason, no description of reasonable alternatives to such impacts are discussed.

Set forth below is the alternative considered and the reason the alternative was rejected:

- The CBA considered not requiring a Certificate of Enrollment. The CBA rejected this alternative because it learned that all jurisdictions that allow early entry to the CPA Exam require a certificate of enrollment from the applicant's college/university as a means of ensuring test security. The certificates are used in other jurisdictions to verify enrollment, degree conferral (or expected degree conferral date) and courses in progress. This verification process lessens the

risks of approving individuals to take the exam for nefarious reasons (e.g., to steal copyrighted content) instead of for the reason of wanting to become a CPA.

- The CBA considered not requiring satisfactory evidence of completed coursework at the time of application for early entry. The CBA rejected this alternative because the completion of this information in conjunction with the information of coursework in progress was the only means to ensure the applicant was within 180 days of meeting the educational requirement.
- The CBA considered not placing a condition on credits earned prior to meeting the educational requirements as it relates to early entry but instead revoking credits if requirements were not met. The CBA rejected this alternative because of the risks imposed by the potential of applicants passing the examination prior to meeting the educational requirements. The NASBA test administration application automatically uses credits and state-specific rolling periods to apply the passing threshold. There would be a risk of applicant's passing the examination prior to meeting the educational requirements set forth in Section 5093. Additionally, once an applicant earns credit, the NASBA test administration allows for the transfer of the credit to other jurisdictions. If applicants were allowed to transfer credits prior to meeting California's educational requirements, the receiver of that credit would not be aware the applicant did not meet California's educational requirements.

Objections or Recommendations/Responses

During the 45-day public comment period, the CBA received two written comments.

Comment 1

The CBA received one written comment, from Ricardo Espinosa:

The following comment was received on June 9, 2023:

"I'm writing this email to express my full support for the April 21 NASBA amendment which provides CPA exam-takers a rolling 30-month period to finish the other three sections of the uniform CPA exam.

It would be beneficial to all parties if the California Board of Accountancy were to adopt this amendment in full.

I would appreciate any feedback regarding the current outlook on this."

The CBA responds as follows:

The CBA accepts this comment. The CBA amended proposed CCR section 7.1 to allow for a rolling 30-month conditional credit period.

Comment 2

The CBA received one written comment, from Jason Fox, Vice President of Advocacy

and Public Affairs, California Society of CPAs:

The following emailed comment was received on July 6, 2023:

“RE: CalCPA Comments on Proposed Amendments to California Board of Accountancy Regulations Pertaining to the Uniform CPA Examination

Dear Mr. Eulalio Ortega,

On behalf of the members of the California Society of CPAs (CalCPA) representing the Certified Public Accountant profession and related professionals working in public accounting firms and businesses throughout California, we are writing to provide comments on the proposed amendments to the California Board of Accountancy (CBA) Regulations pertaining to the Uniform CPA Examination (Exam). While we support the proposed changes to facilitate the transition to the new iteration of the Exam and implement early Exam admission, we respectfully request that the CBA consider amending the regulatory proposal to include an increase in the timeframe for a candidate to pass all parts of the Exam. Specifically, we recommend amending Section 7.1 of the CBA Regulations (Credit Status for the Computerized Uniform CPA Examination) to increase the current 18-month period to 30 months.

Subsequent to the CBA initiating the current regulatory proposal, the National Association of State Boards of Accountancy (NASBA) announced that it approved amendments to the Uniform Accountancy Act Model Rules (Model Rules) to increase the timeframe for a candidate to pass all parts of the Uniform CPA Exam from 18 months to 30 months. This change follows significant input from profession stakeholders, including CalCPA and the CBA. The longer period is intended to provide greater flexibility and latitude for candidates seeking licensure, while negotiating an increasingly complex career environment.

At the March and May 2023 CBA meetings, CalCPA provided comments outlining shifts in how candidates begin their career in accounting that have complicated the ability to successfully pass all parts of the Exam in a condensed timeframe. We believe a longer testing window is a better reflection of the current realities within the profession and is a reasonable accommodation that provides more flexibility for candidates as they balance personal and professional obligations with their career aspirations. Further, the extra time will keep more candidates in the pipeline and allow for a more relaxed testing process. Reducing stress and facilitating a healthier work-life balance leads to more productive employees, more prepared test-takers and a more positive experience with the profession.

We appreciate the consideration of our comments and recommendation to incorporate the longer 30-month testing window into the current regulatory

proposal. Including this change will allow the CBA to maintain consistency with a key provision of the Model Rules and improve the Exam and licensure experience for CPA candidates. Thank you and please do not hesitate to contact us should you have any questions.”

The CBA responds as follows:

The CBA accepts this comment. The CBA amended proposed CCR section 7.1 to allow for a rolling 30-month conditional credit period.

During the 15-day public comment period, the CBA received no written comments.

Reports Required

The proposed amendments do not require licensees to submit a report.

Incorporation by Reference

The following document is incorporated by reference via new text:

- Certificate of Enrollment Form(s) (COE-01 (New 7/2022))

This form is incorporated by reference, as not doing so would be cumbersome, unduly expensive, or otherwise impractical, as important formatting elements, such as the Board’s logo, the state seal, table formatting, bullet points, footnotes, and hyperlinks cannot be reproduced in unincorporated regulatory text.

Form COE-01 (new 7/2022) is added.

The CBA notes the inclusion of a new form. The form will be used to verify enrollment, degree conferral (or expected conferral date), and courses that are in process. The form also requires the applicant to attest they will meet the educational requirements within the time period required by their jurisdiction. The addition of a certificate of enrollment will assist staff in verifying the applicant is currently enrolled in a college or university, meets the early entry requirements and is on track to meet the CPA Exam educational requirements within 180 days.

This form will be available upon request from the public and will be reasonably available to the public from a commonly known source, the CBA’s website.

Economic Impact Assessment per Gov. Code Section 11346.3(B)

The CBA has made a determination that the proposed regulatory action would not have a significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

There is no economic impact to the state.

Creation or Elimination of Jobs within the State of California:

The regulatory proposal will not create or eliminate jobs within the State of California because the proposed changes impact individuals seeking to gain entry into the Uniform CPA Examination. Prior to the passing of AB 298, the CBA required the completion of 24 semester units in accounting subjects, the completion of 24 semester units in business-related subjects and the conferral of a bachelor's degree in order to sit for the CPA Exam. The proposed amendments provide an exception to the above-mentioned requirements and allows applicants to sit for the CPA Exam within a specified timeframe prior to completion of the educational requirements (*i.e.*, early entry).

Creation of New or Elimination of Existing Businesses within the State of California:

The regulatory proposal will not create new businesses or eliminate existing businesses within the State of California because the proposed changes impact individuals seeking to gain entry into the Uniform CPA Examination. Prior to the passing of AB 298, the CBA required the completion of 24 semester units in accounting subjects, the completion of 24 semester units in business-related subjects and the conferral of a bachelor's degree in order to sit for the CPA Exam. The proposed amendments provide an exception to the above-mentioned requirements and allows applicants to sit for the CPA Exam within a specified timeframe prior to completion of the educational requirements (*i.e.*, early entry).

Expansion of Businesses or Elimination of Businesses Currently Doing Business within the State of California:

The regulatory proposal would have no significant impact to the expansion of businesses or elimination of businesses currently doing business within the State of California. The regulations are designed to provide greater flexibility to applicants for taking the CPA Exam

Benefits of the Regulations to the Health and Welfare of California Residents, Worker Safety, and the State's Environment – Gov. Code Section 11346.1(b)(1):

The regulatory proposal benefits the health and welfare of California residents because it will allow the CBA to meet its mandate to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards.

These proposed regulations will have no adverse effect nor benefit on worker safety or the State's environment.

Reasonable Alternatives that Would Lessen the Impact on Small Businesses – Gov. Code Section 11346.2(b)(4)(B):

The proposed regulations only apply to individuals applying to sit for the Uniform CPA Examination and would have no significant impact on the private sector, including small businesses.

Evidence Relied Upon to Support the Initial Determination that the Regulations Will Not Have a Significant Adverse Economic Impact on Business – Gov. Code Section 11346.2(b)(5):

The proposed regulations would not have a significant adverse economic impact on any business because the proposed additions only affect individuals applying to sit for the Uniform CPA Examination, not the private sector.

CALIFORNIA BOARD OF ACCOUNTANCY

CPA EXAM REVISION AND EARLY ENTRY

ADDENDUM TO FINAL STATEMENT OF REASONS

Modifications have been made to the proposed regulatory text. These modifications warrant an addendum to the Final Statement of Reasons contained in the Rulemaking File for Title 16, sections 6, 7.1, 7.3, 8.2, 9.2, 9.3, and 13 of the California Code of Regulations (CCR).

The modifications are non-substantive and were made to remove text that would be inoperative as of December 31, 2023 because the effective date of the regulations would be after that date. These modifications are listed below:

- CCR subsection 6.1(a)(1) was deleted because it would be inoperative.
- CCR subdivision 7.1(a) was deleted because it would be inoperative.
- CCR subdivision 7.1 (b) was modified to remove “applicable” given the removal of the inoperative text results in only a single rolling period being referenced in the proposed regulations.
- CCR subdivision 7.3(a) was modified to remove reference to deleted subsection 6.1(a)(1) and the “four” sections that were referenced in that deleted subsection.

Additional non-substantive edits were made to renumber and correct cross references due to the deletions of inoperative text as listed below:

- CCR subsection 6.1(a)(2) was modified to remove “(2)” given deletion of 6.1(a)(1).
- CCR section 7.1 was modified to renumber as follows: (b) renumbered to (a), (c) renumbered to (b), (d) renumbered to (c), and (e) renumbered to (d).
- CCR 7.1(a) was modified to remove reference to 6.1(a)(2) and change cross reference from subsection (c) to (b).
- CCR subsection 7.1(a)(5) was modified to change cross reference from subsection (c) to (b).
- CCR subdivision 7.1(b) was modified to change cross reference from subsection (e) to (d). Additionally, reference to 7.1(b) was removed.
- CCR subsection 7.1(c)(2) was modified to change cross references from subsection (d) to (c) and (e) to (d).
- CCR subdivision 7.1(d) was modified to changed cross reference from subsection (d) to (c).
- CCR subdivision 7.3(a) cross reference to subsection 6(a)(2) was removed.