

**DEPARTMENT OF CONSUMER AFFAIRS
TITLE 16. PROFESSIONAL AND VOCATIONAL REGULATIONS
DIVISION 1. CALIFORNIA BOARD OF ACCOUNTANCY**

FINAL STATEMENT OF REASONS

Hearing Date: No hearing was scheduled.

Subject Matter of Proposed Regulations: Professional Ethics Exam and Continuing Education

Sections Affected: Title 16, California Code of Regulations (CCR), Division 1, sections 10, 10.1, and 87.1

Updated Information

The Informative Digest and Initial Statement of Reasons (ISOR) are included in the file. No changes have been made to warrant a change to the Informative Digest as contained in the original Notice. The information contained in the ISOR is updated as follows:

The description of the amendments to Section 10 on page 5 of the ISOR, states:

“1. Section 10 is amended to add “Until [OAL: insert effective date of these regulations].”

A. Purpose: The proposed amendment will discontinue the requirement for a CPA to pass an examination in professional ethics as a requirement of licensure. Additionally, BPC 5092 is being removed from the reference section.

B. Rationale: The PETH Exam is currently used as the examination of professional ethics. The proposed amendment to eliminate the requirement is necessary given the CPA Exam includes professional ethics and there is a lack of evidence that the PETH Exam meets professional and technical standards. BPC 5092 became inoperable on January 1, 2014.”

The description should also state that with the insertion of this text at the beginning of the section, the word “All” as reflected in existing text is being amended to be shown in lowercase, as “all”, as reflected in the proposed regulatory language.

The description of the text being added to Section 10.1, beginning on page 5 of the Initial Statement of Reasons, states:

“2. Section 10.1 is added as follows: “Examination on Rules of Professional Conduct Transition. (a) Licensees who meet both of the following

requirements may use a passing score on the CBA-approved examination in professional ethics toward two hours of technical continuing education **as described in Section 87.1**: (1) Initial certified public accountant license was issued on or after [OAL: insert effective date of these regulations]. (2) CBA-approved professional ethics examination was purchased prior to [OAL: insert effective date of these regulations]. (b) This section shall become inoperative on [OAL: insert date that is two years from the effective date of these regulations]. NOTE: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Sections 5018, 5027, 5082, and 5093, Business and Professions Code.”

The description of the text (identified in bold above) should read “...as described in Section 87.1(a)...” as reflected in the proposed regulatory language.

The California Board of Accountancy (CBA) held a 45-day public comment period which began January 19, 2024 and ended March 5, 2024. The Notice indicated a hearing on the matter would not be held unless requested. No request for a hearing was received by the CBA during the 45-day comment period. During the comment period one comment was received. At its March 21, 2024 meeting, the CBA adopted the regulatory text as noticed on January 19, 2024 and delegated to the Executive Officer the authority to make technical or nonsubstantive changes as may be required to complete the rulemaking file.

Local Mandate

A mandate is not imposed on local agencies or school districts.

Small Business Impact

The CBA has determined that the proposed regulations will not affect small businesses. Currently, pre-licensure candidates are required to pass the Professional Ethics Examination for Certified Public Accountants (PETH Exam), which is administered by the California Society of Certified Public Accountants (CalCPA). Approximately 3,150 candidates pay \$175 to take the PETH Exam per year, which results in total annual costs to applicants of \$551,250.

Under this proposal, pre-licensure applicants will no longer be required to take the PETH Exam. Instead, once an applicant is licensed as a CPA, they will be required to complete a two-hour Regulatory Review continuing education (CE) course by their first license renewal. The average cost of a Regulatory Review CE course is \$50, resulting in total annual costs to applicants of \$157,500.

To assist those who have purchased the PETH Exam and are not able to use it to meet their licensure requirements before the elimination, the CBA has proposed a two-year transition period to allow completion of the PETH Exam to count towards two hours of technical CE for their first license renewal.

The Anticipated Benefits of this Regulatory Proposal

This regulatory proposal is intended to maintain consumer protection and professional standards by streamlining pre-licensure requirements and reducing barriers to licensure, while also helping to ensure the CBA's CE requirements are robust and thorough.

Consideration of Alternatives

No reasonable alternative which was considered or that has otherwise been identified and brought to the attention of the CBA would be more effective in carrying out the purpose for which it was proposed or would be as effective and less burdensome to affected private persons than the adopted regulation or would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

Objections or Recommendations/Responses

Comment 1:

The CBA received the following comment on January 22, 2024:

The commenter states that they do not support the idea of requiring the completion of the California Regulatory Review Course for someone who has passed the CPA Exam and completed the 150 hour education requirements. The commenter states that the Regulatory Review Course requirement adds an unnecessary level of compliance for CPA candidates and the CBA needs to lessen the barriers to the CPA profession, not increase it.

The commenter also inquired, "How do I propose my original experience requirement change that any CPA can certify a candidates experience requirement? California should be able to accept NASBA's CPA Candidate Experience Verification Service like many states do."

The CBA rejects this comment based on the following:

The CBA's mission is to ensure only qualified licensees practice public accountancy in accordance with established professional standards. To ensure new licensees are qualified, it is imperative they are aware of California statutes and regulations. With the elimination of the PETH Exam, requiring a continuing education course at a CPA's first license renewal on the provisions of Accountancy Act and CCR relevant to practice in California eliminates a pre-licensure step, easing entry into the practice of public accountancy, while still ensuring new licensees are aware of California-specific provisions. This regulatory proposal also allows the CBA to meet its mission of consumer protection more efficiently as it ensures licensees are completing the Regulatory Review

Course within the first two years of licensure instead of six to eight years after initial licensure.

The CBA's proposal would reduce the cost and time required to obtain a CPA license by not requiring a pre-licensure course.

The CBA rejects the commenter's question regarding the CBA's experience requirements as it is unrelated to the professional ethics and regulatory review course requirements being addressed by this rulemaking proposal.