



May 20, 2014

Dear State Boards of Accountancy, State CPA Societies, CPA Firms, and Other Interested Parties:

We are pleased to announce that the AICPA and NASBA have recently released the 7th Edition of the Uniform Accountancy Act (UAA). Electronic versions of the documents are available on the AICPA (www.aicpa.org) and NASBA (www.nasba.org) websites. This new edition of the UAA contains important additions related to both the definition of “attest” and CPA firm mobility. Concurrent with these updates, the two organizations also approved a conforming change to Rule 6-7 to make the use of the term “Inactive CPA” consistent in the UAA Model Rules. The following material is not intended to be persuasive, but is meant to be informative as to the process that led to the adoption of these changes.

We would like to thank all of you who contributed your concerns, questions and suggestions while the AICPA/NASBA UAA Committee considered these proposed, now final, provisions. As you know, the UAA consists of volunteer representatives of the AICPA and NASBA working to balance the needs of both the public and the profession, but we could not accomplish our mission without your invaluable help.

While the feedback on the changes to “attest” were broadly supportive and without controversy, during consideration of the CPA firm mobility changes, we received a more mixed collection of approximately three dozen comment letters from State Boards of Accountancy, State CPA Societies, and CPA firms. Because of the complexity of this issue and the breadth of important issues raised within those CPA firm mobility letters, we felt it was important to write an open letter to you explaining what those issues were and how the UAA Committee addressed them. Since we found several letters contained common themes, we thought it might be helpful to review and discuss those themes below.

Both the AICPA and NASBA leadership have made it clear, in releasing this new CPA firm mobility language, that this model language will not be the focus of a concerted national campaign in the same way that individual CPA mobility was. Rather, each State CPA Society and each State Board of Accountancy, working together, will have to review the model language and decide if it is in the best interests of the public and the profession in their respective jurisdictions, given current political, budgetary and other relevant factors. Different jurisdictions will come to different conclusions; however, we believe that ultimately, over time, all of the potential concerns can be addressed, as we explain below. Indeed, tackling such questions was done with individual CPA mobility with great success. And, now, after considering the issues outlined below, we hope you, too, will consider working with the AICPA’s State Regulation and Legislation Team and NASBA’s Legislative Affairs Team to introduce and pass legislation on this matter in your jurisdiction

Before delving into the comments, we would like to briefly review how the new CPA firm mobility language will work and why the Committee began to examine this issue approximately two years ago. The new CPA firm mobility model language follows exactly the same format as individual CPA mobility, operating under a “no notice, no fee, no escape” proposition. That is to say, for the provision of attest services, CPA firms would now be able to enter a mobility jurisdiction, where they are not registered, offer services and not have to pay any fees or give any notice to the mobility jurisdiction’s Board of Accountancy. However, should the CPA firm be found to have engaged in wrongdoing, by virtue of entering that mobility jurisdiction, it would be subject to the regulatory jurisdiction of that Board of Accountancy as well as its home state’s jurisdiction. Such a practice privilege model is already enshrined in approximately one third of the jurisdictions and appears to be working quite well.

As you may also note, CPA firm mobility is already allowed throughout the entire country for the provision of non-attest services. It is only attest services that currently trigger registration requirements for a firm without an office in a jurisdiction. In looking back at the history of mobility, it is worth noting that the original individual CPA mobility proposal included full CPA firm mobility. However, because of the lack of substantial equivalency requirements for firms, regulators felt it was important to retain the attest-firm registration requirement, given the unique role CPAs serve in performing such engagements. Nonetheless, although the firm mobility provision was dropped in 2007, it was recognized at the time that this issue would be revisited once everyone better understood how individual CPA mobility was working. Almost a decade later, and with 49 states and the District of Columbia having implemented their laws successfully, the AICPA and NASBA asked the UAA Committee to re-examine firm mobility a little over a year and a half ago.

As we collaborated on the issue, and as we heard from you, the UAA Committee found that questions and concerns about the proposal fell into five broad categories:

- Understanding the peer review protections
- Potential Insufficient Information without registration/notification
- Questions about enforcement
- Inconsistency between states (e.g. compilations)
- Concerns about insufficient information or study of the issue.

Understanding the Peer Review Protections

Comment letters received that raised questions about peer review as it would relate to firm mobility came from: the Arkansas, Guam, New Hampshire, Montana, Oklahoma, and South Dakota Boards of Accountancy and the Texas Society of CPAs. The comments all tended to

point out the variances among the different jurisdictions' laws and regulations regarding peer review.

To assist in considering this situation, the CPA Firm Mobility Task Force leaders consulted with NASBA Compliance Assurance Committee Chair Janice Gray and AICPA Vice President for Ethics and Practice Quality, James Brackens.

Early in the group's discussion it was noted that practically all jurisdictions now have peer review requirements in place and that the state societies are all administering the AICPA's peer review program. Consequently, the differences in peer review do not stem from the program itself, but from how the program is regulated in each jurisdiction. While some State Boards can directly access the reports or have Peer Review Oversight Committees to perform that function, others do not have either full access or a PROC. In addition, it was pointed out that Boards are also not consistent across the country in the conclusions they may draw from these reports.

State Board members were concerned about what peer review information they could examine under CPA firm mobility, even if they do not have a PROC. The answer is that it is consistent with what is now available to those Boards. Under the new model language, any out-of-state CPA firm entering a mobility jurisdiction accepts the regulatory oversight of that state's Board of Accountancy and the firm will be required to provide those peer review documents that an in-state firm is required to provide. Furthermore, it was noted that the AICPA's Facilitated State Board Access program (FSBA) could significantly expedite that process because a State Board could go to FSBA for the information and the out-of-state firm could pre-approve, via a standardized checkoff, the release of those documents to any Board where the firm is practicing as an out-of-state firm. A jurisdiction considering adopting a CPA firm mobility provision may want to reach out to the AICPA's Peer Review team to better understand how the FSBA could serve as an enhancement in their oversight of out-of-state firms.

It should be noted that the peer review process is currently under review and information on how that program will be strengthened will be presented at the 2014 NASBA Regional Meetings as well as other future meetings of professional groups.

Potential insufficient information without registration/notification

Some State Boards of Accountancy expressed reservations about if they would have sufficient information to regulate out-of-state firms if there is no registration/notification requirement. Basically, jurisdictions would not know if a firm has come into their jurisdiction unless there is a complaint lodged against the firm, but the same is true with individual CPA mobility. If a firm did not meet either the peer review or the ownership requirement that would not be apparent until a complaint was lodged. However, even with firm registration, complaints drive investigations of potential wrongdoing.

Individuals on the Task Force pointed out that when individual mobility was introduced there were also concerns about having insufficient information to regulate. But, in the intervening years, the jurisdictions have not reported subsequent problems stemming from individual mobility. Also noted was NASBA's Accountancy Licensee Database (ALD), which alerts all State

Boards to the disciplinary history of CPAs, and which could be expanded to include information about firm discipline. Additionally, it is worth pointing out that not a single state which already had CPA firm mobility in its statute wrote to us to say that the Society and/or Board felt that they had insufficient information to fulfill their responsibilities; in fact, several wrote us to endorse the CPA firm mobility concept and urge other jurisdictions to join them.

Questions about enforcement

Another concern was what enforcement powers a jurisdiction has in regard to an out-of-state firm that comes into its jurisdiction. A related question was what might be done if a mobility jurisdiction felt that the out-of-state firm's home Board of Accountancy might not have the same support and oversight capacity.

Under the substantial equivalency provisions currently in UAA Section 23(a)(3), a Board can take any action against an out-of-state firm that it can take against its own licensees, short of revoking the out-of-state firm's license. License revocation remains the exclusive purview of the home jurisdiction, but a Board can bar a firm from practice within its jurisdiction. This is true with or without a CPA firm mobility law. The enforcement powers of Boards of Accountancy will not be harmed by the passage of CPA firm mobility. Furthermore, NASBA has offered to assist Boards with resources when constraints impact their ability to enforce mobility laws and regulations, which may be an important mitigating aid should a specific problem be identified.

Inconsistency between states (e.g. Compilations)

Both the Texas Board and the Texas Society raised the issue of inconsistency, particularly in respect to Texas' requirements for those doing compilations in the state. Under the Texas definition of "attest," compilations must be performed by a CPA firm. Compilations fall under the definition of "attest" in certain other states as well, although not in the UAA. The UAA Committee believes that Section 7(a)(2) and Section 23(a)(3) of the UAA addresses this issue sufficiently, since a mobility jurisdiction is able to enforce its definition of "attest" requirements for out-of-state firms just as it would for in-state firms. Issues such as this may indeed arise in a handful of jurisdictions and will require unique tailoring of the UAA language to conform to the specific statutes in certain jurisdictions. An important tool that AICPA and NASBA are considering to address these jurisdiction-specific issues is www.CPAmobility.org; indeed, the site could readily be expanded to cover differences among jurisdictions' requirements for firms as well as individuals seeking to practice under mobility laws.

Concerns about insufficient information or study of the issue

Some commenters were concerned that there is not enough information available to assess if CPA firm mobility is a good idea. However, several states have had firm mobility in place for well over a decade and have not found such laws a barrier to regulating and protecting the public. Given this track record, the Task Force concluded that sufficient experience already exists on how the proposed law would work. For example, the Nevada State Board of

Accountancy's executive director wrote to the UAA Committee, commenting that: "Based on the Board's experience with mobility over the past four years there have not been any complaints received or disciplinary actions taken against an individual or firm under practice privilege." Some State Boards and Societies believe they have too recently passed their individual mobility laws to begin the firm mobility debate, but we do not see signs, in the third of the country that already has CPA firm mobility, that the Boards and the profession feel it is untested and other jurisdictions should not join them.

Out-of-state registration fees

Although it was not a major theme in the comment letters, we would be remiss if we did not also address the issue of out-of-state registration fees that was raised in many conversations. We are sensitive to the fact that this is not an insignificant issue for many Boards of Accountancy and the passage of this legislation will indeed require Boards to find other ways to make up revenue lost from these fees. No doubt some legislators will likely conclude that the change would not be revenue neutral and, consequently, they are unlikely to support a change at this time. Jurisdictions are facing tight budgets and State Boards of Accountancy are often potential targets for revenue sweeps. It is precisely for reasons such as this that the AICPA and NASBA are not driving a national campaign on firm mobility, but instead are offering model language and encouraging State Boards and State Societies to examine the impact of the proposal in their jurisdictions. However, despite the associated challenges, this issue is not new and we hope revenue would not be the sole reason to prevent State Boards and State Societies from partnering on trying to facilitate firm mobility. State Boards of Accountancy, in collaboration with State Societies, had to consider this exact same issue when individual mobility was passed. And, 50 different jurisdictions were able to find a way to pass their mobility laws and reapportion the levying of fees on licensees in a way that made sense for their jurisdiction.

Jurisdictions will have to judge what can work best for them, as NASBA and the AICPA have pledged not to launch a campaign for firm mobility. If a State determines that at this time they can only adopt the new definition of "attest" into their law, and need to postpone firm mobility for future consideration, NASBA's Legislative Affairs Team and the AICPA's State Regulation and Legislation Team are ready to assist with that more limited legislative change from that proposed by this Seventh Edition. However, if a jurisdiction is able to move forward with firm mobility, the AICPA and NASBA will work to ensure that this full UAA model language can be implemented in those states.

A change to the UAA commentary

Although the UAA Committee did not make any substantive changes to the CPA firm mobility language in light of the comments received, it did feel that a sentence should be added to the UAA commentary to underscore that a firm availing itself of firm mobility must accept the authority of the mobility jurisdiction and be obligated to meet its rules and regulations. The new sentence states:

“Any firm practicing pursuant to this provision must, as required by Section 23(a)(3), comply with the practice privilege state’s statutes and rules such as all those related to peer review, including disclosures, and on all other matters.” The firm mobility language with that addition was brought to both the NASBA and AICPA Boards of Directors and was approved for inclusion in the UAA’s Seventh Edition.

A joint effort

Our Committee took the examination of this issue very seriously and we, as Co-Chairs, owe a debt of gratitude to many others on the Committee who were leaders in this effort. In particular, we would like to thank the recent UAA Committee Co-Chairs, Steve McConnell and Carlos Johnson, as well as the CPA Firm Mobility Task Force Co-Chairs, Andrew DuBoff and Debbie Lambert, for their many hours of hard work on this subject. All of us felt it was important to proceed cautiously and deliberately and benefited from robust and lively debates among Committee members.

We would like to thank all of you again for your comments, contributions and important questions throughout this process. We appreciate the opportunity to co-chair the UAA Committee and look forward to hearing from you on other issues that will come before the Committee. If you and your colleagues are interested in introducing CPA firm mobility legislation in your jurisdiction or you have additional questions, we encourage you to contact Mat Young, AICPA Vice President, State Regulatory and Legislative Affairs, myoung@aicpa.org, and John Johnson, NASBA Director of Legislative and Governmental Affairs, jjohnson@nasba.org for assistance.

Sincerely,



Gary McIntosh, CPA, CFF
UAA Co-Chair



Kenneth R. Odom, CPA
UAA Co-Chair