

October 21, 2008

Mr. David A. Costello, CPA, President & CEO, NASBA
National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219-2417

Re: Comments on “Education and Licensure Requirements for Certified Public Accountants: A Discussion Regarding Degreed Candidates Sitting for the Uniform CPA Examination with A Minimum of 120 Credit Hours and Becoming Eligible for Licensure with a Minimum of 150 Credit Hours”

Dear Mr. Costello:

On behalf of the Pre-Certification Education Executive Committee (PcEEC) of the AICPA, we are pleased to have the opportunity to submit comments on the above referenced paper. The objective of the PcEEC is “to assist the academic community in preparing students with the core competencies needed for entry into the profession by recommending continuous improvements in curricula, instructional materials and pedagogy.”

The NASBA discussion paper asks respondents to assess whether a model that requires candidates to have 120 hours of education to sit for the CPA exam and 150 hours of education for licensure (120/150 model) will protect the public as well as one that requires the candidates to have 150 hours of education to sit for the CPA exam and 150 hours of education for licensure (150/150 model). Our consensus is that although certain thoughtful accounting practitioners and educators favor the 120/150 model, continued reliance on the 150/150 model offers greater promise for protecting the public interest.

The AICPA and its PcEEC hope to contribute to the discussion by addressing five issues that warrant consideration.

The remaining sections of this letter address these issues.

- The public that must be protected is diverse and heavily relies on the competence, integrity and maturity of CPAs.
- In a time of increased complexity of accounting and auditing rules, reducing the educational requirements to sit for the CPA exam is inappropriate.
- The number of candidates sitting for or passing the CPA exam is an ineffective and inaccurate metric for determining whether 120 or 150 hours of education should be required to sit for the CPA exam.

- Recent issues related to fair value measurement, XBRL, fraud detection and IFRS affect the skills and knowledge demanded for minimal competency and, in turn, the number of hours of education needed to sit for the CPA exam.
- There is the strong possibility of significant unintended consequences with a shift from 150 to 120 hours.

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Business writers define the public as debt and equity investors who rely on the financial information for decision making, and citizens who are affected by those decisions. Also and increasingly included would be government agencies, lenders and donors. In the case of a contemplated change in an educational requirement, we believe the definition of public is also expanded to include students whose lives and careers will be affected by the educational decisions they make in their twenties, educators who in good faith have invested heavily in the creation of innovative master's and integrated undergraduate/graduate programs that are internationally recognized for their quality, and members and clients of CPA firms.

In a time of increased complexity of accounting and auditing rules, reducing the educational requirements to sit for the CPA exam is inappropriate.

Leaders of the AICPA, accounting educators, education accrediting agencies, and many in the profession have endorsed the 150/150 model for many years and continue to do so. While a number of states specify conditions under which candidates can sit for the exam prior to completing 150 hours of education, this hardly seems the time to be reducing requirements to sit for the CPA exam. The attention focused on auditors and CPAs by widely publicized accounting scandals, Sarbanes-Oxley, the formation of the PCAOB, the SEC's Advisory Committee on Improvements to Financial Reporting, and the Treasury Department's Advisory Committee on the Auditing Profession (ACAP) clearly suggest increased complexity, globalization, and that the accounting profession needs strong not weak requirements for licensure and high quality accounting and auditing standards. In an increasingly complex and global business environment, and in a culture in which post-baccalaureate education is valued, it likely would be difficult to convince the public that reducing educational requirements to sit for the CPA exam would increase public protection. The importance of post-baccalaureate accounting education in an expanding business world is emphasized in Recommendation 5 of section IV (Human Capital) of the Draft Final Report of the Treasury Department ACAP, which encourages the AICPA and AAA jointly to form a commission to provide a timely study of the possible future structure of higher education for the accounting profession. The recommendation responds to testimony regarding the feasibility of establishing a free-standing, post-graduate educational structure.

Although we do not believe it would be in the best interest of the public or the profession, recent experience suggests that any sign that the leadership of the profession and the state regulatory

community is not totally dedicated to protecting the public interest could lead to the increased involvement of the PCAOB or other federal regulators in setting licensure and other standards for public company auditors. Such actions would further reduce the prerogatives of the states and the accounting profession.

The number of candidates sitting for or passing the CPA exam is an ineffective and inaccurate metric for determining whether 120 or 150 hours of education should be required to sit for the CPA exam.

If accounting is to be regarded as a profession on comparable footing with law and medicine, the basis for assessment should be the quality of service and contributions made by individuals throughout their careers. Even if it were possible to do so methodologically, which is questionable, comparing the educational backgrounds of individuals who make it to the starting point of their careers (i.e., sitting for or passing the CPA exam) would reveal nothing about the long-term value of requiring students to complete 150-hours of education before taking the CPA exam. Available evidence indicates no states in which medical students are allowed to sit for their final professional examination before completing their medical education and only a few states that allow law students to sit for the bar before completing law school. This is not by accident; it is because the leaders of those professions believe that although there may be a short-term cost to individuals there is a long-term benefit to society of all candidates for professional licensure having mastered a core body of knowledge and being up-to-date on recent developments in the profession at the time of taking the licensure exam.

The AICPA's CPA Exam Board of Examiners currently is considering changes to the exam that would facilitate testing of higher level reasoning and analytical skills. As the attached copy of PcEEC's comment letter on the Board's exposure draft describing such changes indicates, the committee views the proposed changes as necessary to protect the public. Discussion in the Record of Proceedings of the Treasury Department's ACAP notes testimony that the CPA Examination as a catalyst for accounting curriculum change only will be effective if the CPA Examination is written assuming completion of 150 hours, *available at* <http://www.treas.gov/offices/domestic-finance/acap/submissions/06032008/Bedard060308.pdf>.

One of the problems associated with using CPA pass rates as a metric for assessing the effect of allowing students to sit for the exam is that the current exam focuses on material covered primarily in undergraduate accounting courses and does not test the additional skills and knowledge developed through post-baccalaureate/graduate level study (e.g., fair value measurement, fraud risk assessment). Another significant consideration is the fact that the CPA exam is based on a practice analysis of skills required to be successful in the early stages of practice – not on a specific analysis of the knowledge candidates should have developed through pre-certification education. Further, the impossibility of comparing the number of candidates sitting and pass rates for paper and computerized versions of the exam renders comparative analysis difficult, even in directional fashion.

NASBA's discussion paper suggests there is no basis for concluding that candidates with 150 hours of education perform better on the CPA exam than those with 120 hours. We question

whether this is supported by data described in the discussion paper or by other NASBA documents reporting CPA exam pass rates. For example, the comparison of pass rates in states requiring 150 hours to sit versus 120 hours can be very misleading because the actual number of hours a student has taken before the exam is not known, and is generally believed to be many more than 120. Nor is the content of those hours uniform across schools and states. And finally, NASBA's methodology in analyzing the data also omits any weighting factor which will likely distort the results. We are further reviewing the data and will share our findings separately. Our initial assessment, using previously published NASBA data, suggests that those with more hours do better on the exam, including those with master's degrees as the NASBA paper points out. (One issue this discussion brings to the fore is the need to collect better candidate data, and we have several suggestions to make at an appropriate time)

Recent issues related to fair value measurement, XBRL, fraud detection and IFRS affect the skills and knowledge demanded for minimal competency and, in turn, the number of hours of education needed to sit for the CPA exam.

There is no logical basis for arguing that an increase in complexity and rapidity of change should not be reflected in the knowledge and skills tested on the CPA exam, much less result in the reduction of educational requirements to sit for the CPA exam. Arguments quoted in section II of NASBA's recent discussion paper about 21st century accountants needing to acquire more knowledge and develop more skills than could be crammed into an undergraduate program that were compelling twenty years ago are even more so today.

There is the strong possibility of significant unintended consequences with a shift from 150 to 120 hours.

Impossible to fully forecast, unintended consequences are the bane of regulation. Two likely adverse reactions to supporting decreased educational requirements to sit for the exam have been discussed above: negative public perception of the profession and increased regulatory involvement by federal regulators. Groups for which decreasing educational standards may result in unintended outcomes are students, educators, CPA firms, and ultimately the profession. The possible consequences for each of these groups are discussed below.

Students

Some books describing the characteristics that distinguish a profession from a trade discuss the concern of existing partners for the long-term career success of young professionals entering their firms. The U.S. culture values credentials. Because students and their parents recognize this, some students choose to satisfy the 150-hour requirement by completing a master's degree. Significant amounts of money have been raised to provide scholarships so that the opportunity to earn a master's degree is broadly available. Participation in a master's program allows students to leverage undergraduate internship experiences and develop skills and knowledge they could not develop in four years of education. It also results in a graduate degree, which generally is regarded in the U.S. as a significant achievement and important credential.

A small minority of members of the PcEEC find merit in the 120/150 model because it encourages students to take the exam as soon as they complete their undergraduate degree, while still providing some incentive for them to complete the additional 30-hours needed for licensure while working full time. The significant majority of the committee expressed concern that students, who by nature tend to be short-run oriented, will rationalize foregoing master's study for the immediate monetary return of accepting an accounting position – and the belief that they will be able to balance full-time employment, passing the CPA exam, earning another 30 hours of college credit, and starting a family. The unintended consequence could well be a large number of entry level accountants who never qualify for licensure as a CPA. If this proves true, the costs to individuals, firms and society would be significant.

Educators

Accounting educators have devoted significant effort and money (aided by the profession) to developing integrated five-year programs designed to help students develop the knowledge and skills that leaders of the accounting profession argue are needed for the 21st century. The increased involvement of accounting faculty in graduate education has raised the profile of accounting programs on university campuses and increased the resources given to accounting departments for program enhancement. Accounting students have benefitted and will continue to benefit as long as leaders of the accounting profession value post-baccalaureate and graduate accounting education. The 150/150 hour model clearly communicates the importance of graduate accounting education to university decision-makers.

CPA Firms

The 120/150 model may increase the supply of entry level accountants available to CPA firms but in the long-run may increase cost. Uncertified entry level accountants are likely to expect their employer to help them pay for a CPA review course, to sit for the exam, and to complete 30 additional hours of education. Studying for the exam, taking the exam, and completing additional educational requirements likely will lead to the expectations of time off and other accommodations that are difficult for firms to provide, especially the smaller firms.

In the past, entry level accountants recently completing undergraduate degrees could be expected to be aware of new accounting standards when they arrived to begin work. It is unlikely this will continue to be true. There is no room in already crowded undergraduate accounting curricula to provide students the fair value knowledge and skills to understand accounting for impairment, share-based payments, business combinations, embedded derivatives and other frequently encountered practice problems – let alone IFRS.

The Profession

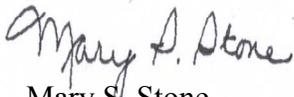
Although NASBA (and other constituents) clearly state that they continue to favor 150 hours of education for licensure as a CPA, expressing support for 120 hours to sit for the CPA exam could lead to the logical extension of questioning 150 hours for licensure. The consequences of re-

opening that discussion could be very damaging to the public and the profession, for many obvious reasons including credibility, if it led to states repealing 150 hours for the CPA license.

The foregoing analysis leads the committee to conclude that although certain thoughtful accounting practitioners and educators provide reasons favoring the 120/150 model, continued reliance on the 150/150 model offers greater promise for protecting the public interest.

We appreciate the opportunity to comment on NASBA's discussion paper, and would be pleased to provide additional information or to discuss our suggestions if it would be helpful.

Yours truly,



Mary S. Stone
Chair, AICPA Pre-certification Education Executive Committee



Dennis R. Reigle
Director, AICPA Academic and Career Development

Attachment: PcEEC comment letter to AICPA Board of Examiners