RETREAT 3

NASBA

National Association of State Boards of Accountancy

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Board of Examiners
American Institute of CPAs
100 Princeton South, Suite 200
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Via Email: jmaslott@aicpa.org

Re: Exposure Draft: Maintaining Relevance of the Uniform CPA Examination

We are pleased to respond to the request for comments from the American Institute of CPAs' (the "AICPA") Board of Examiners (the "BOE") on its *Exposure Draft: Maintaining the Relevance of the Uniform CPA Examination Invitation to Comment* (the "Exposure Draft"). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy in the United States and its territories (the "Boards"). Our comments are made in consideration of the Boards' mandate to protect the public interest.

We support the AICPA and BOE in this important endeavor of conducting a comprehensive practice analysis to ensure that the Uniform CPA Examination (the "Examination") continues to test the minimum competencies needed to become a licensed certified public accountant. The Boards of Accountancy rely on this Examination, along with education and experience requirements, as stated in their Accountancy Acts, as they make the important determination of qualification for licensure as a CPA. Given the significance of the Examination to all Boards of Accountancy, they have relied upon NASBA to monitor this practice analysis process closely on their behalf.

RESPONSE TO EXPOSURE DRAFT QUESTIONS

Section A – Comments requested on the next version of the Examination as defined in the Exposure Draft

I. Increased focus on testing of higher order skills is the most significant change proposed for the next Examination. Should the proposed next Examination reflect an increased focus on testing of higher order skills? If not, please explain.

- **a.** We agree with the recommendation to introduce the testing of higher order skills into the Examination. CPAs, even those who are newly licensed, are expected to perform at more advanced levels due to the increased use of technology and outsourcing to perform simpler tasks.
- **b.** While we believe that the rate of change should be kept modest to allow candidates to adjust to new test item types and the new blueprint structure, we encourage the AICPA to

continue to evolve the Examination by gradually introducing additional analysis and evaluation simulations in all sections, particularly into FAR and REG. Newly licensed CPAs must make decisions about the appropriateness of accounting methods used and correct tax treatment of items, which involve a moderate degree of complexity and uncertainty.

II. Are the analysis and related conclusions in the Next Version of the Examination section (on pages 8 to 14) appropriate and supportive of the assessment of competent, newly licensed performance? If not, please explain.

- **a.** Generally, yes. We agree that the analysis and conclusions in the Next Version of the Examination section are appropriate and supportive of the assessment of competent, newly licensed performance, with a few caveats and clarifications.
- **b.** We are supportive of maintaining the same four part Examination structure, as well as increasing the number and weighting of task based simulations.
- **c.** We believe the introduction of the new Document Review Simulation item type is positive and encourage the BOE and the AICPA Examination Team to continue innovating new item types and adding them to the Examination.
- **d.** We also applaud the increase in background material and data related to task based simulations which will require candidates to discern which information is or is not relevant to the question. This more accurately reflects actual practice.
- **e.** As noted below and explained in more detail in our response to the Invitation to Comment in 2014, we remain concerned that written communication will be evaluated solely for writing ability and not include a content component. We strongly encourage the AICPA to continue to research ways in which content can be tested in conjunction with writing skills as written communication remains a vital skill for all licensed CPAs.
- **f.** We are very supportive of content integration in the Examination as this is the reality of practice. The BOE and the AICPA Examination Team should continue their efforts to ramp up integration in all four sections of the Exam.
- **g.** As also mentioned in our response to the Invitation to Comment last year, we believe that the concept of an integrative capstone section is intriguing and should stay on the table for future consideration. We do have significant questions and concerns relating to complexity, cost to develop and score, time to score, candidate cost and other topics, and look forward to dialogue on this concept in the future.
- **h.** Given the increase in testing of higher order skills, including their weighting, number and time allotment, we understand the need to increase the BEC and REG sections by one hour each. We ask the BOE to remain mindful of the additional cost to candidates and ask that this always be considered as a very important factor when anticipating extending the Examination's length.
- **i.** On behalf of the candidates, we appreciate that changes to the Examination will not negatively impact the existing score release timeline on a go forward basis. We also understand that the AICPA needs to be prudent in protecting the legal defensibility of the Examination. We are concerned, however, about extending the length of time for score reporting by any significant amount during the launch period. We encourage the BOE and the AICPA Examination Team to keep any delays as short as possible out of concern for the candidates having adequate time after receipt of their scores to be able to schedule and

test in the next window.

j. As Microsoft Excel is so widely used, we appreciate that it is being included for use in the Examination in 2018. We encourage the AICPA to go beyond using it as a scratch sheet tool, which is planned at its initial launch, and consider ways that it can be used more robustly in the Examination.

k. We do believe an increase to the Examination's cost is warranted if it ensures the Examination remains robust and relevant. Given this caveat and the recognition that Examination prices have remained consistent and actually dropped during the past ten years of computerized testing, we do feel that a moderate overall increase in price is tolerable. Though we want the Examination to be of the highest quality, we don't want to overly burden candidates with significantly higher examination costs and believe every effort should be made to keep the price as low as possible.

l. NASBA is working with the Boards of Accountancy, as well as the AICPA and Prometric, on certain possible test administration model changes and appreciates the input provided through AICPA's Invitation to Comment. We look forward to working with the Boards of Accountancy, the AICPA and Prometric to continually improve the Examination administration process for candidates.

III. Are there significant areas of content missing from the detailed blueprints that should be included? If yes, please explain.

a. We believe that the important topic of the Board of Accountancy's licensing and regulation of CPAs should be included in the Examination. Though including specific jurisdictions' regulations would not be feasible, it is crucial that candidates understand the licensing structure in the United States and that they are subject to State laws and Board of Accountancy regulations. It is important to note that most state boards reference the AICPA Code of Professional Conduct as law, but others do not, or have more restrictive regulations on some matters. All state boards have additional rules and regulations to which CPAs must adhere. Even newly licensed CPAs need to understand this and be able to show their comprehension of this regulatory structure.

b. We do not agree with the removal of Area 1: Process by Which Accounting Standards are Set and Roles of Accounting Standard-Setting Bodies from the FAR section of the Examination. We believe that even newly licensed CPAs should understand the backbone of accounting standards – how they are derived and which bodies have responsibilities for standard-setting. This is fundamental to the accounting profession.

c. We were surprised not to see the concepts of data analytics and data mining being added to the next version of the Examination. It is our understanding that both are used extensively in the accounting and audit environment, even at the newly licensed CPA level. We understand that there is a major emphasis by the accounting firms for educational institutions to incorporate data analytics into their curriculum as they believe their professionals need these skills. We would encourage the Board of Examiners to consider this area for inclusion in the Examination, if not now, then in the near future.

d. In REG, Area II – Business Law, Topic E. Business Structures, 1. Selection and Formulation of Business Entity and Related Operation and Termination: We would encourage the BOE to consider adding "summarizing the tax operational features for various business entities" to the nontax operational features noted.

e. In REG, Area II - Business Law, Topic D. Government Regulation of Business: The International Qualifications Appraisal Board (IQAB) is concerned about deleting a significant portion of the content that has been tested regarding the Uniform Commercial Code, as well as other federal laws and regulations (including antitrust, copyright, patents, money laundering, labor, employment and ERISA). This is important because the REG section of the Examination is used as the International Qualifications Examination (IQEX). It is imperative that this section not be reduced. Licensees who come to the United States from other countries, often with more than one or two years of experience, need to be well grounded in this material.

f. In REG, Area III – Federal Taxation of Property Transactions, Topic C. Estate and Gift Taxation, 3. Determination of a taxable estate: Given recent changes in estate taxation, we believe there is a greater focus on the potential relationship between portability and basis. Consideration should be given to including this topic.

g. In REG, Area V – Federal Taxation of Entities, Topic E. Partnerships, 2. Basis of Partner's Interest and Basis of Assets Contributed to the Partnership: The set of representative tasks all seem to focus on partners' basis for federal income tax purposes without reference to capital accounts and their calculation. Consideration could be given to asking candidates to at least "remember and understand" that there are different types of capital account methods presented for partnerships.

IV. Are there significant areas of content in the detailed blueprint that should be excluded? If yes, please explain.

a. None are noted. We do encourage the AICPA to conduct a regularly scheduled and comprehensive obsolescence review of all questions on the Examination to ensure they remain up-to-date, accurate and relevant.

V. Do the content ranges in each section of the Examination in the summary blueprint align with the content knowledge required of newly licensed CPAs? If not, please explain.

a. The reduction in emphasis on REG, Area II, Business Law, is concerning. A reduction from a minimum of a 17% focus to only a 5% focus seems extreme, as the basic understanding of business law is critical to all CPAs. We would suggest a minimum range would be between 10% and 15%. Further, if REG is going to continue to serve as the IQEX Exam, Business Law topics should be increased to range between 15% and 20% of the Examination.

b. We note that throughout all four sections of the Examination, the number of content areas has been reduced and the percentage bands within each reconstituted area have been expanded. Why were bands with ranges from 4-6% previously, now all given ranges of 10%? This has the effect of providing less granularity and insight to stakeholders, including candidates, regarding the importance of various topics on the Examination and, more specifically, the extent to which they will be tested.

c. This expansion of percentage bands also seems to give much latitude in creating panels. As an example, as outlined in the Exposure Draft, 85% of one REG Examination could be devoted solely to taxation topics, leaving only 15% for business law, ethics, professional responsibilities and federal tax procedure. Another REG Examination could be only 60% devoted to tax topics and 35% to business law, ethics, professional responsibilities and

federal tax procedure. This seems to be a wide range when it is expected that all versions of the CPA Examination are substantially equivalent.

d. Though not missing from the blueprint we are very concerned about the diminished emphasis on Accounting and Review Services, as well as Attestation Engagements as these services will no longer have their own area, but will be integrated with other types of engagements, there is no minimum percentage of emphasis delineated in the blueprint. This is deeply concerning as we know that newly licensed CPAs in many small and medium sized firms spend extensive time working in the Accounting and Review Services area, and the use of attestation engagements, particularly agreed-upon procedure engagements, is increasing in practice nationally. How will it be determined how much content from these two areas will be included in the Examination? At a minimum, we believe more transparency into the depth of content being tested in these areas should be disclosed in the blueprint. In this new organizational structure of the Examination, it is possible for zero Accounting and Review Services topics or Attestation Engagement topics to be included in a candidate's examination. This does not seem acceptable, given the importance of both areas to practice.

e. On the same lines, we are also concerned about the deletion of a separate not-for-profit accounting and reporting area in the Exposure Draft. By blending this topic area into Areas I, II and III, there is no transparency into how extensively it will be tested on the next version of the Examination. Again, it is possible that zero content or skills in the not-for-profit area could be included in a candidate's examination. In addition, the candidate has no idea how much emphasis should be given in his / her study to this practice area. Boards of Accountancy know the vital importance of not-for-profit knowledge by CPAs who choose to practice in this area. Enforcement actions are commonly related to deficient knowledge in the not-for-profit sector and the public is highly relying on the CPA to be minimally competent in this area.

f. In FAR, we note that only two representative tasks were included for Topic B.6. Notes to Financial Statements. We believe that financial statement disclosures are a crucial element of the financial statement package and are relied heavily upon by the public to provide context and greater detail to the basic financial statements. As such, we are concerned that only including two representative tasks minimizes the importance of financial statement disclosures.

VI. Are the skill level ranges identified for each section of the Examination in the summary blueprint representative of the skill levels required by newly licensed CPAs? If not, please explain.

a. We are in general agreement with the skill levels outlined in the exposure draft with several exceptions noted below.

b. Until the communication constructed response questions can be adequately tested for content along with writing skills, we do not believe the weighting of written communication skills in the BEC section should be any greater than the 15% weighting it receives on the current Examination. We believe 20% is too high.

c. In AUD, Area II – Assessing Risk and Developing a Planned Response, Topic C. Understanding an Entity's Internal Controls, 2. Flow of Transactions and Design of Internal Controls: In the third task, we would suggest "in response to auditor's risk assessment/analysis" be added at the end of the existing sentence.

d. In AUD, Area II – Assessing Risk and Developing a Planned Response, Topic D. Assessing Risks Due to Fraud, Including Discussions Among the Engagement Team About the Risk of Material Misstatement Due to Fraud or Errors: We are unsure how a task based simulation can include a brainstorming exercise. Generally it is considered that there are no bad answers in brainstorming, so we are somewhat confused by this task. Possibly the way in which the tasks are structured will eliminate this concern.

e. In AUD, Area IV – Forming Conclusions and Reporting, Topic C. Accounting and Review Service Engagements, 3. Review Reports: It would seem that analysis would be an important skill level to test as it is important for the CPA to analyze the results of the review procedures before preparing the review report.

f. In BEC, Area II – Economic Concepts and Analysis, Topic B. Market Influences on Business: In the first task, the candidate is asked to identify and define key factors related to the economic marketplace and how they impact the business entity. We are unsure how this can be done without analyzing the economic marketplace and the business entity's situation.

VII. Does the detailed blueprint, including content and representative task statements, provide sufficient information for CPA candidates to understand the knowledge and skills expected of a newly licensed CPA on which they will be tested? If not, please explain.

a. We commend the AICPA BOE and Examination Team for developing a thorough exposure draft and new form of blueprint. Overall, we feel that it is much more understandable and candidate friendly than the current content and skill specification outlines. We believe that the level of skill and representative tasks specified in the blueprint will provide a much clearer roadmap for candidates, academia and review course providers as candidates prepare to take the Examination. It is much more specific as to the important knowledge and skills needed to become a newly licensed CPA.

b. We believe CPA candidates would better understand the "Evaluation" skill if it were titled "Evaluation and Conclusions." A critical part of this skill is drawing a clear conclusion after evaluating the relevant material to support the conclusion.

c. As mentioned above, however, we are concerned about the reduction in number of topic areas and the widening of the ranges within the remaining topic areas. This introduces increased uncertainty for candidates as they prepare to take the Examination as certain significant topics are now buried in larger topic areas and the precision of the ranges has diminished.

Section B – Comments requested on The Future of Practice Analysis section and for future Examination releases

In this time of rapid changes to the business and economic environment, the CPA profession is also changing rapidly. We concur that waiting seven years between practice analyses is too long. As the Boards of Accountancy rely on the Examination as one measure by which they determine if a candidate meets the bar to become licensed as a CPA, it is imperative that it is current, relevant, reliable and legally defensible.

We feel strongly that the system by which changes are made to the Examination is transparent and follows a robust process which includes public review and comment. In reviewing The Future of the Practice Analysis section of the Exposure Draft, we note the use of the terms "substantive changes" and "significantly change" when deciding when another practice analysis should occur, and are concerned both could be widely interpreted. We would appreciate better understanding how the AICPA would define these terms as they relate to changes to the Examination, as we are concerned that what could be defined as minor or insignificant changes by the AICPA might not be fully vetted, but could be considered by other stakeholders to be substantive and significant. We believe it is crucial that the BOE play a significant role in staff oversight of any suggested changes to the Examination and that the entire process remains transparent with appropriate exposure to all stakeholders.

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NASBA appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the AICPA in analyzing the relevant issues and potential impacts from a public protection point of view. Our Boards would be interested in seeing all responses received to this Exposure Draft to better understand the perspectives of other stakeholders, importantly including candidates.

We look forward to the opportunity to follow the deliberations of the BOE on responses to this Exposure Draft as they finalize the next version of the CPA Examination. We will be sharing this response with all Boards of Accountancy, as well as speaking to it at our Annual Meeting on October 26, 2015 during a panel discussion at which time we will also be discussing possible test administration changes.

Very truly yours,

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