Economic Impact Analysis
Virginia Department of Planning and Budget

18 VAC 5-30 – Continuing Professional Education Sponsor Registration Rules and Regulations
Board of Accountancy
February 11, 2003

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The Board of Accountancy (board) proposes to repeal the Continuing Professional Education Sponsor Registration Rules and Regulations.

Estimated Economic Impact

The Virginia Board of Accountancy Regulations (18 VAC 5-21) require that individuals meet Continuing Professional Education (CPE) requirements in order to obtain and renew their board-issued CPA certificates.[1] CPAs who perform services for the public are required to "… obtain 120 hours of CPE during each CPE reporting cycle with a minimum of 20 hours per CPE reporting year. The CPA certificate holder may choose the areas of study and courses." The reporting cycle is three years. CPAs who perform services for only non-public clients or who are employed as an educator in the field of accounting are required to:

[1] There are additional requirements.

> meet the following CPE requirements as a condition of renewal of the person's CPA certificate: (i) for the three-year reporting period beginning July 1, 2002, a minimum of 45 credit hours with a minimum of 10 hours per year, (ii) for the three-year reporting period beginning July 1, 2005, a minimum of 90 credit hours with a minimum of 15 hours per year, and (iii) for the three-year reporting periods beginning on or after July 1, 2008, a minimum of 120 credit hours with a minimum of 20 hours per year. The CPA certificate holder may choose the areas of study and courses.[2]

The Continuing Professional Education Sponsor Registration Rules and Regulations (18 VAC 5-30) require that "individuals seeking registration as a Virginia approved (CPE) sponsor … apply on a form provided by the board and submit an application fee of $165." According to the board, the application package is extensive and takes a considerable amount of time to fill out. Registration lasts two years. The renewal fee is $165. The sponsor regulations also require that sponsor courses "contribute to the professional competence of participants."

The board proposes to repeal the Continuing Professional Education Sponsor Registration Rules and Regulations, which will save CPE sponsors the $165 application and renewal fee, as well as the time and effort required to complete the application package and renewal forms. The lower cost of becoming and remaining a sponsor may induce more individuals to become sponsors and offer CPE courses. The lower cost to sponsors and increased supply of courses may result in the availability of lower-priced CPE courses for CPAs. CPE requirements will remain for individuals seeking to obtain or retain a board-issued CPA certificate.

The board conducts 30 to 40 audits every month of CPA-certificate holders to check whether they are in compliance with their CPE requirements.[3] The board will accept as evidence of CPE credit hours documents from sponsors that include any of the following designations: CE (continuing education), CPE (continuing professional education), CLE (continuing legal education), CME (continuing medical education) or QAS (quality assurance service).[4] The board will not require that the sponsor be licensed, registered, certified, or evaluated in any way by any outside organization. The course can potentially be on any topic; the subject matter does not

[2] Individuals under other circumstances have different CPE credit minimums.
[3] Source: Board of Accounting
[4] Ibid

need to be related to accounting.[5] For example, the course could be on how to meet and obtain new clients. The CPA-certificate holder does not need to demonstrate that he has gained any knowledge or acquired any new skill.

The proposed repeal of the Continuing Professional Education Sponsor Registration Rules and Regulations allows CPAs to acquire CPE credits from sponsors who have not been evaluated in any way by any outside organization. Under the sponsor regulations, sponsors are evaluated by the board and are restricted to offering courses that "contribute to the professional competence of participants." Thus, the proposed repeal will likely lessen the frequency that CPAs will take courses that contribute to their professional competence. They may choose instead to take courses that may or may not relate to their business (procuring more clients, etc.), but do not enhance or update their competence in providing CPA services.

The board refers to the sponsor regulations as "repetitious and unduly burdensome on CPE sponsors in the Commonwealth, in light of regulations and programs at the national level."[6] However, there are no federal regulations pertaining to CPE sponsors for CPAs. Also, though there is a national organization that evaluates CPE sponsors for CPAs, the National Association of State Boards of Accountancy (NASBA), the board does not require that sponsors participate in NASBA programs or that of any other organization. As described above, repealing the sponsor regulations saves costs for sponsors and potentially for CPA certificate holders as well through potentially lower fees and greater choice of courses. But the repeal also effectively lets anyone sponsor a course for CPA CPE credit, regardless of his ability or the quality or content of his course. It could be argued that CPAs are intelligent people who can determine for themselves whether a course offering will be of value to them. But if that is true, it is not at all clear why there should be a requirement that CPAs to take CPE courses at all. They can choose on their own whether the course is worth their time. If the purpose of the CPE requirement is to compel CPAs to keep their knowledge and skills relevant to CPA services up-to-date, who otherwise would fail to do so, then there should be a mechanism to ensure that the qualifying CPE courses that they take effectively impart the relevant knowledge and skills. Perhaps requiring that sponsors earn course certification through either NASBA, some other approved certifying organization, or through the board itself would accomplish this purpose. If the board

[5] Ibid

believes that the requirements of the current sponsor regulations are too burdensome, it can eliminate the regulations' unnecessarily burdensome aspects and just retain those portions that help provide some assurance toward the quality and relevance of the proposed course.

Requiring CPE is costly for CPAs in time and fees, and it does not provide any true assurance that CPAs have continued to have sufficient knowledge to practice competently in their profession, particularly when the courses need not be on subjects related to enhancing or updating their professional competence. The public is informed via the Virginia Board of Accountancy Regulations (18 VAC 5-21) that CPE is defined as "an integral part of the lifelong learning required to provide competent service to the public; the formal set of activities that enables accounting professionals to maintain and increase their professional competence." Upon hearing that CPAs are required to complete CPE in order to retain their CPA certificates and that CPE is defined this way, the public may be mislead into believing that holders of CPA-certificates have demonstrated up-to-date knowledge in subjects directly related to CPA services such as, for example, the latest changes to tax law. As discussed above, CPAs can in practice meet their CPE requirement without taking courses that enable them to maintain and increase their professional competence. This potential misapprehension by the public is costly in that clients may pay for a CPA's services believing that he has skills and knowledge that he does not actually possess. Potential clients may forego searching for another CPA who does have the desired skills and knowledge because of the misapprehension.

This problem may be partially alleviated if CPA certificate holders are required to disclose the courses that they have taken to meet their CPE requirement to their clients. Potential clients would have a better idea of whether a CPA has kept current on developments in the service area of interest for the client. In addition, if CPAs know that clients and potential clients will see the names of the courses that they have taken to meet their CPE requirement and the names of the course providers, it is probable that some CPAs will take more of their CPE courses in areas related to accounting than they otherwise would without a disclosure requirement. But if there is no oversight of sponsors whatsoever, sponsors may offer courses with misleading titles which CPAs could use to impress clients, but which do not actually pertain much to accounting.

[6] Source: Virginia Regulatory Town Hall Proposed Regulation Agency Background Document

There may be a an even better probability that CPAs will stay current in applicable knowledge and skills if the approvable CPE credits are restricted to courses on subjects relevant to performing CPAs services. Eliminating CPE credit requirements altogether and replacing them with continued competency testing would most likely be significantly more effective and efficient in providing accurate assurance of continued competency of CPAs than do CPE requirements.[7] Passing a continued competency exam provides significantly more information to the public concerning a CPA's knowledge and skills than do CPE requirements. This would reduce the likelihood that potential clients would misallocate their resources by hiring an individual whose skill and knowledge set were not what the client expected. Under competency testing, CPAs who are able to obtain the knowledge and skills needed to remain competent with less than 120 hours of CPE over three years could potentially use their time and dollars more productively on other endeavors. However, they would remain free to take as many CPE courses as they wish. Hence, continued competency testing is more efficient. CPAs who fail to obtain the knowledge and skills needed to remain competent will be more accurately identified as such with continued competency testing than with CPE requirements. Being thus identified, many of these individuals would likely be compelled to make the extra effort necessary to remain competent.

Another possibility would be to eliminate CPE requirements and not have competency testing.[8] CPAs would save on time and fees for courses that they would not have taken without the requirements; clients and potential clients would have the assurance that licensed CPAs had the knowledge and skills necessary to at one time pass their CPA exams and become licensed, without being misled about their current knowledge and skill level. Clients and potential clients could then determine on their own whether they believed that an individual CPA had been keeping up with relevant developments in the field; reputation from other satisfied or dissatisfied clients could help in this determination. Since the current CPE requirements, as interpreted by the board, allow for credit from courses that do not cover subjects relevant to performing CPA services, eliminating the CPE requirement does not actually eliminate an accurate assurance that CPAs maintain up-to-date knowledge and skills. It is likely that the CPE requirement compels some CPAs to take courses that improve their knowledge and skills relevant for CPA services,

[7] This is not an option currently available to the board and would require legislative action.

but as discussed above, competency testing would more effectively and efficiently compel CPAs to remain up-to-date and would provide clearer information to clients and potential clients.

Businesses and Entities Affected

The proposed repeal of the Continuing Professional Education Sponsor Registration Rules and Regulations affects the 203 CPE sponsors registered in Virginia, as well as CPAs and their clients.[9]

Localities Particularly Affected

The proposed repeal of the Continuing Professional Education Sponsor Registration Rules and Regulations affects all localities in the Commonwealth.

Projected Impact on Employment

The proposed repeal of the Continuing Professional Education Sponsor Registration Rules and Regulations reduces the costs for individuals to become CPE sponsors in Virginia. According to the board, some individuals that initially expressed interest in registering as a sponsor decided against doing so due to the time and cost involved. Thus, the elimination of the registration requirement may encourage some individuals to offer CPE courses who have chosen not to while the requirement has been in place.

As mentioned above, the elimination of the registration requirement reduces the costs for sponsors. Lower costs will allow sponsors to perhaps charge lower fees and offer courses on different subject matter. This may induce CPAs to demand additional CPE courses, which would increase employment hours for sponsors. The potential increase in demand is tempered by the likelihood that a significant percentage of CPAs would not desire to increase their total CPE hours, even with lower fees and additional options, since it is believed that many are currently only taking 120 hours per three years now to comply with the CPA certificate requirement.

Effects on the Use and Value of Private Property

The elimination of the registration requirement for sponsors reduces their costs and increases the value of their businesses.

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[8] Ibid
[9] Source: Board of Accounting