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Political Factors Involved in Development of a Proposal for National Licensing of CPAs

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AICPA
INTERNAL
MEMORANDUM

Date: October 28, 1985

To: Mr. Chenok **Phone Ext.:** 5577

Ref

From: Mr. Bruschi, William **Phone Ext.:** 6474

Subject: **Political Factors Involved in Development of a Proposal for National Licensing of CPAs**

You asked me to prepare this memorandum to summarize my ideas as to the political factors that would have to be dealt with in connection with a proposal for national licensing of CPAs. It is presumed that the licensing would be under either a federal law, or by the AICPA issuing a national certificate. I have added an historical perspective.

LICENSING UNDER FEDERAL LAW

The following factors would have to be dealt with under licensing by a federal law:

- State accountancy statutes mandate licensing of CPAs. These laws would continue to be operative until repealed unless they were preempted by federal law. Strong opposition to preempting or repealing the state laws could come from the following:
  - State boards of accountancy and central licensing bureaus because of their loss of authority.
  - State government financial authorities because of loss of revenues derived from fees for relicensing CPAs and CPA firms.
  - State societies of CPAs because they have been in control of the political destiny of the profession within their states through their legislature contacts.
  - Local CPA firms because they would likely view the national licensing as a ploy by the national CPA firms to establish a CPA certificate at a higher or expert level which would demean state CPA certificates.
- If those opposing forces were overridden and state CPA accountancy statutes preempted or repealed, the NSPA would likely urge state legislation to license PAs using the NSPA national examination. Local CPAs, many of whom are members of the NSPA, would rally to that cause and abandon the AICPA and state societies.

- If the state accountancy statutes were left in place providing ongoing licensing of CPAs and CPA firms, but a super CPA designation created for those filing audit reports with the SEC or federal government agencies, strong opposition would come from local CPAs on the grounds that their state CPA certificates have lost stature.

    - If the federal licensing were attributed to a covert AICPA effort, the AICPA could suffer substantial loss in membership. The defectors could shift to a new national CPA organization or to the NSPA.

NATIONAL LICENSING BY THE AICPA

If the AICPA were to issue CPA certificates under its own program in competition with the states but without the authority of a federal law the same opposing forces enumerated above would come into play. The AICPA would probably be subject to legal action to estop the program on the grounds that it was usurping a state licensing function.

- If the AICPA were to mount a program to register professional accountants under a designation other than CPA while CPAs continued to be licensed by the states, many of the above forces would mount opposition. Furthermore, the AICPA would have to embark upon a major program to convince accounting majors (and their parents) that the AICPA designation is preferable to the state CPA designation. The National Association of Accountants has not had much success in convincing accounting majors as to the professionalism of the CMA designation or the Internal Auditors as to the CIA designation.

    - There would also have to be a major, expensive public relations program to convince the public that the AICPA designation is comparable to or superior to the CPA designation.

HISTORICAL PERSPECTIVE

The concept of a national CPA certificate arises periodically in AICPA circles. Following is an historical perspective on the concept.

CPAs are licensed by state laws instead of a federal law because in the 1890s, when the first state CPA laws were enacted, the federal government had little involvement in the business community or interstate commerce. The Interstate Commerce Commission, patterned after state

railroad commissions, was beginning its regulation of railroads and the Sherman Anti-trust Law had been enacted. The Federal Trade Commission, which came into being in 1914, was not even a concept at that time.

The pattern for licensing professionalism at the state level had been set by the legal and medical professions and the public auditors in seeking licensing followed the lead of those professions.

Once the public auditors were successful in New York in 1895 in obtaining licensing as CPAs, the New York law became the prototype for other state laws. The die had been cast for state licensing.

From the inception of state licensing, the AICPA supported strongly that form of licensing. It was realized that there were problems with differing state requirements but the AICPA's position was that those differences could be reduced by the Uniform CPA Examination, the Model Accountancy Bill, and a strong AICPA state legislation committee. Through the years the AICPA broadcast support of state licensing of CPAs as its legislative policy, and worked for the adoption of the Uniform CPA Examination and the provisions of the Model Bill.

An opportunity to break from that position occurred in 1933 when there were Congressional Hearings in connection with the Securities Act of 1933.

The AICPA did not present testimony at those hearings but, in classical testimony before the Senate Committee on Banking and Currency, Colonel Arthur H. Carter, a Senior Partner of Haskins & Sells, argued persuasively for continuance of auditing public companies by independent accountants. His remarks served for years as the profession's rallying point in dealing with federal authorities.

After World War II, however, a change in attitude toward state licensing crept into the profession. Increasing mobility of the population caused people, including CPAs, to want to relocate. Of comparable importance was the growth in size of CPA firms resulting in opening of practice offices in many states with the consequent need to transfer personnel from one city to another.

The need for mobility and to engage in accounting practice on an interstate basis caused CPAs to apply for reciprocal certificates in other states on a large scale. At this point the profession found its interstate mobility severely handicapped by state accountancy laws and state board regulations. Sometimes those restrictions were caused by narrow legal opinions of state attorney generals but often they arose from the attitudes of the state boards themselves.

Frustration in dealing with those narrow state restrictions caused AICPA President Louis Kessler during his 1969-70 term to call for a study of the feasibility a national CPA certificate.

That study was undertaken, 1971-73, by the AICPA-NASBA Special Committee on Professional Recognition and Regulation. The committee concluded that the profession, as a whole, had learned to accommodate to the varying state laws and regulations, and that the cost and upheaval that would ensue from an attempt to establish a national certificate could not be justified.

In 1981-82 Lee Layton's Special Committee on Regulatory Trends proposed a program for licensing CPAs in the event a state should lose its accountancy statute as a result of a Sunset Review. Such dire actions had been proposed in Florida, New Hampshire and Tennessee. The committee proposed that the AICPA, in cooperation with the respective state societies, commence issuing CPA certificates for those states. The program contemplated that other states would continue issuing CPA certificates and that the AICPA program would be on a state-by-state basis and not a national CPA certificate in competition with existing state CPA licensing programs.

There have been no formal AICPA studies of a national licensing of CPAs since the Layton Committee completed its work.

WCB:dw
cc: T. Kelley
W. Crane