

## Memorandum

ECC Agenda Item IV.  
January 26, 2011

To : ECC Members

Date : December 15, 2010

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From : Cindi Fuller, Coordinator  
Licensing Division

Subject : Ethics Requirements for CPA Licensure of Other State Boards of Accountancy

At the September 21, 2010 Ethics Curriculum Committee (ECC) meeting, members requested additional information regarding the development and implementation of the ethics requirements for Certified Public Accountant (CPA) licensure established by other state boards of accountancy.

Members specifically requested the Texas State Board of Public Accountancy be contacted to inquire of its own experience in implementing its three unit board-approved ethics requirement. In response to members' request, staff contacted the Texas State Board of Public Accountancy and posed the below questions to the Executive Director.

- When did the ethics education requirement for CPA licensure take effect?
- What, if any, was the rationale for implementing such a requirement?
- How did the Texas State Board of Public Accountancy settle on requiring three units?
- Who performs the review and makes the recommendations on the approvals?
- We understand that ethics courses must be pre-approved through the Texas State Board of Public Accountancy. How does a college/university apply and get approved, and how does it maintain its approval?

Provided in **Attachment 1** is the response received from Texas.

In addition to Texas, staff reviewed the educational requirements of other state boards of accountancy via their Web sites and identified the following states as having some level of ethics education built into their requirements – Alabama, Arizona, Hawaii, Maine, Maryland, Michigan, Nebraska, Nevada, New York, Ohio, and West Virginia. Staff found that Maryland, New York, West Virginia, and Texas actually require the completion of ethics study.

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Provided below is additional information regarding the research done on other state boards of accountancy's ethics educational requirements (excluding Texas).

Maryland

Maryland requires the completion of three undergraduate units of ethics education in business ethics, accounting ethics, or philosophy of ethics. Maryland requires that the three units be devoted to the study of ethics. Introductory Philosophy or Theology courses are not acceptable as they substantially are not devoted to the study of ethics; however, upper-level Moral Theology or Moral Philosophy courses where the focus is ethics are acceptable.

Maryland will not accept courses that combine the study of ethics with other substantive disciplines or studies (e.g., a course titled "Legal and Ethical Environment of Business" will not be acceptable). Courses with an ethics component will not fulfill the three-unit requirement. From time to time, applicants will argue that ethics was taught across the curriculum. As there is no reasonable way to verify this claim, Maryland does not allow credit unless a course has a published number of credits designated as "ethics" credits.

New York

New York requires courses be taken in ethics and professional responsibility but does not specify the amount of units. Typical course titles that would fall under the content area of ethics and professional responsibilities include auditing, business law, commercial law, and business ethics. Ethics courses may be taken from the Liberal Arts Department and course content may be integrated into other courses or serve as stand-alone courses.

West Virginia

Beginning July 1, 2011, West Virginia will require the completion of three units in ethics study. These units may be counted as part of the required accounting or business-related electives which amount to nine units respectively for each area of concentration.

The remaining nine states simply accept ethics courses to fulfill the accounting or business-related education requirements. Staff was unable to locate any information that provides any specifics regarding the type of ethics courses.

Attachment



# Texas State Board of Public Accountancy

333 Guadalupe, Tower III Suite 900, Austin, Texas 78701-3900

William Treacy, Executive Director

November 3, 2010

Attachment 1

Patti Bowers  
Executive Officer  
California Board of Accountancy

Ms. Bowers:

I received your email concerning changes to the California CPA licensure and the implementation of 10 units of ethics study. Donna Hiller, Director of Qualifications, and I would be available to participate in a conference call to answer questions about the Texas State Board of Public Accountancy's experience in implementing our ethics requirement. The following information is provided as you begin to develop the framework for the course of study in ethics.

When did the ethics education requirement for CPA licensure take effect?

Texas amended *Board Rule 511.58 – Definitions of Related Business Subjects* to include the requirement for a 3-semester-hour college course in ethics in February, 2003. Qualified courses had to be approved by the Board, taken at a recognized educational institution, and contain core values such as ethical reasoning, integrity, objectivity and independence. The Qualifications Committee (QC) of the Board reviewed each course syllabus and class schedule to determine that the course met the requirements of the rule. A variety of ethics courses, offered in various university departments from philosophy to business, were accepted. As the QC worked through this process, it narrowed the focus and began approving only ethics courses offered in some departments of business. The QC developed an ethics matrix that was helpful in its review process and also began to require inclusion of accounting and business moral dilemmas and case studies, as well as incorporation of the AICPA, SEC, and Texas Board ethics rules.

In January, 2009, the rule was amended with respect to the ethics requirement.

*(c) In addition to the 24 hours required in subsection (b) of this section, the board requires that 3 passing semester hours be earned as a result of taking a course in ethics. The course must be taken at a recognized educational institution and should provide students with a framework of ethical reasoning, professional values and attitudes for exercising professional skepticism and other behavior that is in the best interest of the public and profession. The ethics program should provide a foundation for ethical reasoning and include the core values of integrity, objectivity and independence taught by an instructor who has not been disciplined by the board for a violation of the board's rules of professional conduct unless waived by the board.*

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# Texas State Board of Public Accountancy

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William Treacy, Executive Director

The 2009 amendments were implemented to track the ethics requirement in NASBA's model rules 5-1 and 5-2.

## What, if any, was the rationale for implementing such a requirement?

In 2001, as a result of the collapse of Enron, the Texas legislature expressed concern that CPAs and those desiring to hold the CPA designation exhibit high ethical standards as well as comply with the Board's Rules of Professional Conduct. As information became available about the involvement of CPAs in the Enron matter, it became evident to the Board that formal education in business ethics was needed. The QC, which is comprised of accounting educators and CPAs, was aware that ethics information was integrated in a number of accounting courses; however, a discrete course covering accounting ethics was not offered. There was push back by some educators who believed that ethics could not be taught. Over the 7 years that a discrete ethics course has been required in Texas, there has been a change of opinion. Bill Thomas, PhD, CPA, Baylor University, completed a study for the Board about accounting ethics education in 2005. He is now working on a follow-up to the survey to determine if the ethics course requirement has been beneficial to CPAs who were certified within the past five years. The number of enforcement complaints related to ethical violations requiring Board action has significantly decreased since the implementation of the rule and we believe it is reasonable to assume that there is a correlation between the rule and the decrease in complaints.

## How did the Texas State Board of Public Accountancy settle on requiring three units?

Foundation building courses offered by higher education institutions have historically been 3-semester-hour courses; e.g. philosophy or humanities courses. With business ethics curriculum already integrated into the accounting degree plan, the Board believed the material the student needed could be completed in one 3-semester-hour class.

## Who performs the review and makes the recommendations on the approvals?

Initial reviews are made by the agency's Qualifications Division Director, Donna Hiller, prior to the QC review. For a course to be considered, the university submits the syllabus, class schedule, and ethics matrix. If questions arise during the initial review, or the material is incomplete, Ms. Hiller contacts the course instructor for additional information. When the QC considers the ethics course, it may: (1) approve the course as presented, (2) approve the course with stipulations, (3) require additional information or clarification prior to approval, or (4) deny approval for the course.

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William Treacy, Executive Director

We understand that ethics courses must be pre-approved through the Texas State Board of Public Accountancy, how does a college/university apply and get approved, and how does it maintain its approval?

The requirements for consideration of an ethics course by the Board are provided on its website. The link is provided for your use. <http://www.tsbpa.state.tx.us/education/ethic-course-requirements.html> Schools are contacted at three-year intervals and asked to provide information about the approved ethics course so that it may be reconsidered for reapproval. When an ethics course is approved, the school is informed and also is asked to notify the Board if there is a significant change to the syllabus or instructor(s), or if the class is no longer offered.

We are of course available to provide additional information about our efforts if you have additional questions.

Yours very truly,  
Texas State Board of Public Accountancy

William Treacy  
Executive Director

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