

# MINNESOTA STATE BOARD OF ACCOUNTANCY

## STATEMENT OF NEED AND REASONABLENESS

### PROPOSED AMENDMENT TO PERMANENT RULES GOVERNING LICENSING AND REGULATION OF ACCOUNTANTS, MINNESOTA RULES CHAPTER 1105

#### INTRODUCTION

The proposed amendment to the permanent rules of the State Board of Accountancy (the Board) contained in Minnesota Rules, parts 1105.0100 to 1105.7900 is being made to:

- Update the rules for changes made necessary by amendments to Minnesota Statutes, chapter 326A (2008 MN Laws, Ch. 195),
- Make changes in the rules to adopt changes made in the Uniform Accountancy Act Statute and Rules since the rules were last amended in 2005,
- Update the rules for changes in professional standards applicable to licensees, and
- Clarify the rules as a result of questions and comments received by the Board since the rules were last amended in 2005.

The Board, through its Rules and Legislation Committee, has been preparing and discussing these proposed rule amendments since July, 2007. Committee meetings where such amendments were discussed were open to the public and, in addition, these proposed changes were discussed at various Board meetings and at open meetings specifically held for the purpose of discussing these proposed rule amendments for which notice was given in the Board's Newsletter. The Request for Comments regarding amendments to the Board's rules was published in the State Register on September 4, 2007.

Interested parties should refer to the entire proposed rule amendment for the proposed language on specific rule amendments. The proposed rules were prepared to reflect changes made to various provisions of Minnesota Statutes, Chapter 326A, during the 2008 legislative session. These changes, which became effective April 18, 2008, can be found at *2008 MN Laws Ch. 195* and specific references to Chapter 326A throughout the remainder of this document refer to Chapter 326A, as amended. The changes in the statute, as well as the proposed changes to the rules, are contained on the Board's website at <http://www.boa.state.mn.us>. The proposed rule amendments were published in the State Register on June 2, 2008 and were also mailed to all persons on the Board's mailing list who have expressed an interest in the rulemaking activities of the Board. Notification of the Board's rulemaking intent has been given to all persons subject to Board regulation. Such notification included a request that persons interested in the Board's rulemaking activities notify the Board so that their name can be added to the Board's mailing list.

The proposed rule amendments are necessary in order to effectively regulate the practice of public accounting, and to ensure that the public interest is protected. The Board, on a periodic basis, will undertake review and revision of different parts of its rules. The Board believes that such periodic review and revision are necessary to the viability of its rules, to

ensure the rules remain consistent with statutory requirements, to ensure reciprocity with other licensing jurisdictions, and to make sure that the rules continue to meet the needs of persons engaged in the practice of public accounting as well as the public who use such services.

### **ALTERNATIVE FORMAT**

Upon request, this Statement of Need and Reasonableness (SONAR) can be made available in an alternative format, such as large print, Braille, or cassette tape. To make a request, contact: Doreen Frost, Executive Director, Board of Accountancy, Suite 125, 85 E. Seventh Place, St. Paul, MN, 55101, Telephone: (651) 296-2388, TTY (651) 297-5353.

### **BOARD'S STATUTORY AUTHORITY**

The Board's statutory authority to adopt the rules is set forth in Minnesota Statutes, section 326A.02, subd 5, which provides: "The board may adopt rules governing its administration and enforcement of this chapter and the conduct of licensees and persons registered under section 326A.06, paragraph (b), including:

- (1) rules governing the board's meetings and the conduct of its businesses;
- (2) rules of procedure governing the conduct of investigations and hearings and discipline by the board;
- (3) rules specifying the educational and experience qualifications required for the issuance of certificates and the continuing professional education required for renewal of certificates;
- (4) rules of professional conduct directed to controlling the quality and probity of services by licensees, and dealing among other things with independence, integrity, and objectivity; competence and technical standards; and responsibilities to the public and to clients;
- (5) rules governing the professional standards applicable to licensees including adoption of the standards specified in section 326A.01, subdivision 2, and as developed for general application by recognized national accountancy organizations such as the American Institute of Certified Public Accountants or the Public Company Accounting Oversight Board;
- (6) rules governing the manner and circumstances of use of the titles "certified public accountant," "CPA," "registered accounting practitioner," and "RAP";
- (7) rules regarding peer review that may be required to be performed under provisions of this chapter;
- (8) rules on substantial equivalence to implement section 326A.14;
- (9) rules regarding the conduct of the certified public accountant examination;

(10) rules regarding the issuance and renewals of certificates, permits, and registrations;

(11) rules regarding transition provisions to implement this chapter;

(12) rules specifying the educational and experience qualifications for registration, rules of professional conduct, rules regarding peer review, rules governing standards for providing services, and rules regarding the conduct and content of examination for those persons registered under section 326A.06, paragraph (b);

(13) rules regarding fees for examinations, certificate issuance and renewal, firm permits, registrations under section 326A.06, paragraph (b), notifications made under section 326A.14, and late processing fees; and

(14) upon any change to this chapter, if the board determines a change in Minnesota Rules is required, the board may initiate the expedited process under section 14.389 up to one year after the effective date of the change to this chapter.”

Under this statute, the Board has the necessary statutory authority to adopt the proposed rules.

This rulemaking is an amendment of rules and as such Minnesota Statutes, section 14.125 does not apply.

### **REGULATORY ANALYSIS**

Minnesota Statutes, section 14.131, sets out seven factors for a regulatory analysis that must be included in the SONAR. Paragraphs (1) through (7) below quote these factors and then give the agency’s response.

**(1) a description of the classes of persons who probably will be affected by the proposed rule, including classes that will bear the costs of the proposed rule and classes that will benefit from the proposed rule**

Persons affected and will bear the cost of the rules include:

- (a) Applicants for the CPA Examination
- (b) Certified Public Accountants
- (c) Licensees
- (d) CPA Firms
- (e) Registered Accounting Practitioners and RAP Firms

Persons who will benefit from the rules include:

- (a) The public who uses services of the Certified Public Accountant and Registered Accounting Practitioners
- (b) Applicants for the CPA Examination
- (c) Certified Public Accountants
- (d) Licensees

- (e) CPA Firms
- (f) Registered Accounting Practitioners and RAP Firms

**(2) the probable costs to the agency and to any other agency of the implementation and enforcement of the proposed rule and any anticipated effect on state revenues**

Assuming compliance with the rules it is not anticipated that there will be significant cost to the Board or any other agency and that state revenues would also not change. The proposed change to the CPA Certificate renewal period from renewal every year to every three years will result in revenue timing fluctuations during the three year transition period. Consistent with changes made in Minnesota Statutes, sections 326A.05 and 326A.14, certain fees associated with individuals practicing in Minnesota who do not have their principal place of business in Minnesota will be eliminated and the permit fee for CPA Firms who have one or more offices located in another state will be increased from \$35 to \$68 per year. The impact of these two fee changes offset each other and they were authorized in statute.

**(3) a determination of whether there are less costly methods or less intrusive methods for achieving the purpose of the proposed rule**

The Board regulates a profession where the granting of a CPA certificate to an individual by the Board and resultant licensing is highly valued by that individual. Services provided by CPAs are also highly valued by the public because of the standards followed and code of professional conduct observed by the profession and regulated by the Board.

For the most part, the regulation of the profession by each of the 54 licensing jurisdictions in the United States is substantially the same. It is important in today's marketplace that regulation between jurisdictions be as consistent as possible. There does not appear to exist any viable alternatives to licensing and regulation of the accounting profession that will achieve the purposes of maintaining high professional and ethical standards, public trust, and public protection.

**(4) a description of any alternative methods for achieving the purpose of the proposed rule that were seriously considered by the agency and the reasons why they were rejected in favor of the proposed rule**

No alternative methods were considered.

**(5) the probable costs of complying with the proposed rule, including the portion of the total costs that will be borne by identifiable categories of affected parties, such as separate classes of governmental units, businesses, or individuals**

The Board does not believe there will be any additional cost as a result of the proposed rules; however, if any such costs exist, they will be borne by the businesses and individuals regulated by the Board. The proposed rules contain no new fees which were not authorized by statute. The proposed rules eliminate fees associated with individuals practicing in Minnesota

who do not have their principal place of business in Minnesota. This fee elimination was also authorized by statute.

**(6) the probable costs or consequences of not adopting the proposed rule, including those costs or consequences borne by identifiable categories of affected parties, such as separate classes of government units, businesses, or individuals**

The Board does not believe there will be any costs associated with not adopting the proposed rules. The consequence of not adopting the proposed rules is diminished administrative efficiency and effectiveness incurred by the Board in the regulation of the accounting profession and in the ease and consistency of administering the rules and the inconsistency between the rules and statutes will be confusing to those persons regulated by the Board.

**(7) an assessment of any differences between the proposed rule and existing federal regulations and a specific analysis of the need for and reasonableness of each difference**

The Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Internal Revenue Service and other federal government agencies do have authority to regulate accountants who practice before them. The proposed rules do not create any additional differences between the Board's rules and federal regulation.

**PERFORMANCE-BASED RULES**

In considering the proposed rules, the Board attempted to increase regulatory effectiveness by elimination of ambiguities and adding clarifying language in its existing rules which were the subject of questions raised to the Board. The clarifying language should result in fewer questions and reduced time and expense associated with questions. In addition, rules which were obsolete, unnecessary or duplicative were deleted.

The Board's rules are based in part on model rules contained in the Uniform Accountancy Act published jointly by the National Association of State Boards of Accountancy and the American Institute of Certified Public Accountants.

**ADDITIONAL NOTICE**

The Board's additional Notice Plan consisted of notification in the Board's Newsletter to all holders of CPA certificates and firms issued permits of the Board's plan to amend its rules. In addition, individuals who previously expressed an interest in Board rules were mailed the Request for Comments and will be mailed the planned rule amendments when available and Board staff will attempt to identify and notify all professional organizations representing affected persons—namely, the Minnesota Society of Certified Public Accountants and the Minnesota Association of Public Accountants. The professional organizations generally communicate with their members regarding the Board's rulemaking. The draft of the proposed

rule amendments and changes made thereafter were placed on the Board's website starting on October 1, 2007 along with drafts of this Statement of Need and Reasonableness. Notice of an open meeting of the Board's Rules and Legislation Committee, which was held on November 16, 2007, was mailed to all individuals who previously expressed an interest in Board rules and was published in the Board's Newsletter and on the Board's website.

A Dual Notice of intent to adopt rules has been prepared and mailed to all individuals who previously expressed an interest in Board rules and was placed on the Board's website. A hearing has been scheduled for 9 AM on July 22, 2008 in the Golden Rule Conference Room #295, Golden Rule Building, 85 East Seventh Place, St. Paul, MN 55101. A copy of the proposed rules and the SONAR are available on the Board's website and from the contact person listed in the Alternative Format section of this document.

Our notice plan also includes giving notice required by statute. We will mail the rules and notice of intent to adopt to everyone who has registered to be on the Board's rulemaking list under Minnesota Statutes, section 14.14, subdivision 1a. We will also give notice to the Legislature per Minnesota Statutes, section 14.116.

### **LOCAL GOVERNMENT IMPACT**

As required by Minnesota Statutes, section 14.131, the Board has consulted with the Commissioner of Finance. We did this by sending to the Commissioner of Finance copies of the documents sent to the Governor's Office for review and approval by the Governor's Office prior to the Board publishing the Notice of Intent to Adopt. We sent the copies on April 28, 2008. The documents included: The Governor's Office Proposed Rules and SONAR Form; draft rules; and SONAR. The Department of Finance response to the letter will be posted on the Board's website upon receipt. It is the Board's opinion that the proposed rules have no impact on local governments.

### **COST OF COMPLYING FOR SMALL BUSINESS OR CITY**

As required by Minnesota Statutes, section 14.127, the Board has considered whether the cost of complying with the proposed rules in the first year after the rules take effect will exceed \$25,000 for any small business or small city. The Board has determined that the cost of complying with the proposed rules in the first year after the rules take effect will not exceed \$25,000 for any small business or small city because the rules proposed no new fees or requirements for a small business and do not apply to small city.

The Board has made this determination based on the probable costs of complying with the proposed rule, as described in the Regulatory Analysis section of this SONAR starting on page 3.

### **LIST OF WITNESSES**

If these rules go to a public hearing, the witnesses below may testify on behalf of the Board in support of the need for and reasonableness of the rules. The witnesses will be available to testify and answer questions about the development and the content of the rules.

Doreen Frost, Executive Director, Board of Accountancy

Robert J. Hyde, CPA, Chair of the Rules and Legislation Committee, Board of Accountancy

**RULE-BY-RULE ANALYSIS**

The following rule-by-rule analysis will, by rule, provide a summary of the proposed rule change and a statement as to the need for the change and the reasonableness of the change. Interested parties should refer to the entire proposed rule amendment for the proposed language on specific rule amendments. The proposed rule amendments were published in the State Register on June 2, 2008.

<b>Rule 1105.</b>	<b>Summary of Change</b>	<b>Need for Change</b>	<b>Reasonableness of Change</b>
.0100, Subp. 9a	Added definition of "Licensee"	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The proposed change is also needed to clarify what specific statutes and rules apply to individuals qualifying under Minnesota Statutes 326A.14 and firms not required by 326A.05 to have a firm permit.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.0100, Subp. 11a	Added definition of "Professional engagement"	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and defines that term as used in the definition of "professional services".	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.0100, Subp. 11b	Added definition of "Professional services"	The proposed change is needed as a result of	The proposed change is reasonable because it is a

		changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The proposed change is needed to define what is met by “professional services” when such services are performed by licensees or registrants and is consistent with the definition of “professional” in Minnesota Statutes, chapter 326A.	result of a statute change and/or implements a statute change and the proposed change is reasonable because it clarifies a term used in the rules consistent with board statute.
.0100, Subp. 12 and .4600	Updated definition of “Quality Review” and recognized that the PCAOB conducts such reviews for purposes of Minnesota Statutes and Rules.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. Further the change is needed to reflect that the PCAOB conducts such reviews of a firm’s public company attest client practice.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and it is reasonable because it recognizes that only the PCAOB conducts quality reviews of public attest clients of a firm.
.0100, Subp. 17	Deleted definition of “Report”. The term is defined in Minnesota Statutes, section 326A.	The proposed change is needed to make the definition of the term “Report” consistent with statutes.	The proposed change is reasonable because the term is defined in Minnesota Statutes.
.0250 (A), (B), (D) and (E)	Updated documents incorporated by reference	The proposed change is needed to update professional literature to the most current available prior to the adoption of changes to the rules.	The change is reasonable because it updates material to the most recent literature in use by the profession.
.0250 (F) – (H)	Added additional documents incorporated by reference	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.0600	Specified that stated renewal fees are	The proposed change is needed as a result of	The proposed change is reasonable because it is a

	applicable to a one year period; eliminated fees no longer needed; added clarifying wording to delinquency fee and added the fee for certain firms contained in statute	changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and the change is needed to clarify when the delinquency fee should be imposed.	result of a statute change and/or implements a statute change and the proposed change is reasonable since it does not change the annual fee amount and it provides clarity as to when the delinquency fee is imposed. Further the change is reasonable because it adds the firm permit renewal fee for firms with offices in one or more states which is contained in statute so that all Board fees are contained in one location.
.1000	Clarified that certificate, permit and registration fees collected are not to be prorated.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.1100	Clarified when the Board must be notified of correct business and home address, telephone and facsimile numbers.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.1200	Changed title of person to whom certain communications to the Board must be addressed.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.1650	Added early application and examination provisions as a result of changes to Minnesota Statutes, section 326A.03, Subd. 3a.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.1800, Subp. 2	Clarified that the professional ethics examination needs to be completed prior to application for a	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change. The

	certificate.	implement such changes. The proposed change is needed to clarify that the ethics examination must be completed prior to making application for a certificate.	proposed change is reasonable because the ethics examination needs to be completed before the application can be processed.
.2000, Subp. 2	Clarified the provisions relating to credit for CPA examination sections.	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.2000, Subp. 3	Deleted transition provisions which are no longer applicable.	The proposed change is needed to delete provisions which are no longer applicable.	The proposed change is reasonable because it deletes provisions which are no longer applicable.
.2000, Subp. 4	Clarified that examination sections passed in another state need Minnesota Board approval prior to being accepted in Minnesota.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The proposed change is needed to clarify that the approval of examination grades for the issuance of a Minnesota certificate is performed by the Minnesota Board, even if the examination was passed in another state.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable since it imposes a process similar to that required for Minnesota CPA examination candidates.
.2200, Subp. 2.	Updated and clarified provisions related to examination cheating consistent with Model UAA Rules.	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.2400	Added that the Board may waive the 18-month examination period under the Board's Emergency Examination Procedure.	The proposed change is needed to recognize the hardship on an examination candidate and provide relief in the event situations described in this part occur.	The proposed change is reasonable because it provides relief in situations where a candidate is not able to take the examination through no fault of their own on a scheduled date.
.2450	Added Good Moral Character definition consistent with the	The proposed change is needed as a result of changes made to	The proposed change is reasonable because it is a result of a statute change

	Model UAA Rules in order to clarify the manner in which the Board determines ineligibility due to lack of good moral character and rehabilitation of moral character.	Minnesota Statutes, chapter 326A and/or to implement such changes.	and/or implements a statute change and the proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.2500 (A)	Clarified when the application for certificate renewal must be filed.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.2500 (C)	Clarified that licensees who perform professional services for clients of a firm must have an “active” certificate even if such services are performed while the licensee is an independent contractor.	The proposed change is needed so that employees and independent contractors who are performing the same function at a firm are both treated the same in that they are required to have an “active” certificate. Further the proposed change helps ensure that all licensees performing professional services on behalf of a firm are competent.	The proposed change is reasonable because it requires the same certificate status for persons performing professional services for a firm.
.2500 (C) and (D)	Clarified provisions as a result of changes made to 1105.7900.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.2550	Changed the CPA Certificate renewal period to three years starting for periods after 2009 and provided for transitions provisions.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.2900 (C)	Clarified that the six hour limitation on internship hours applies only to the two 24-hour requirements in item (B).	The proposed change is needed to correct a drafting error in the rule when the rule was amended in 2005 and the proposed change is	The proposed change is reasonable because it clarifies the rules consistent with their original intent.

		needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	
.2900 (D)	Provided a listing of Accounting and Business related courses for which some or all must be covered in the 150 semester hour requirement in items (A) and (B).	The proposed change is needed as a result of changes proposed to the Uniform Accountancy Act and related rules and the proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.3000 (A)	Makes rule changes made necessary as a result the three year renewal period established by 1105.2550. Also clarified what constitutes ethics education.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and the proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.3000 (G)	Added that the failure to obtain required CPE is a basis for disciplinary action and also clarified the date for ending the fee for non-compliance with CPE requirements.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and the change is needed to clarify the ending date for calculating the CPE non-compliance fee.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the change is reasonable because it provides clarifying information as to when the non-compliance periods ends.
.3000 (I) and deleted (J)	Deleted a transition provision related to ethics CPE which is no longer needed and added a provision related to changing licensing status made necessary as a result of the three year renewal period established by	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.

	1105.2550.		
.3000 (J)	Clarified the effective date of the ethics requirement.	The proposed change is needed to clarify when the ethics requirement is first applicable.	The change is reasonable because it is clarifying in nature.
.3000 (K)	Added a provision relating to reporting compliance with CPE requirements made necessary as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3100, Subp. 1	Clarified which types of CPE programs are not subject to the NASBA CPE Registry requirement.	The proposed change is needed to clarify that seminar or lecture programs presented by the listed sponsors do not need to be NASBA CPE Registry approved. Programs other than live seminar or lecture programs do need such approval.	The proposed change is reasonable because it is clarifying in nature.
.3100, Subp. 2 and 4	Expressed CPE limitations as an hour limitation instead of a percentage limitation.	The proposed change is needed to clarify the existing rule by expressing the limitations as an actual hour amount instead of a percentage. The actual amount of the limitation did not change.	The proposed change is reasonable because it is clarifying in nature.
.3100, Subp. 3	Changed “principal office” to “principal place of business” consistent with Model UAA Rules and Minnesota Statute and made change needed as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and the propose change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.3200 (B)	Made change needed as a result of the three year renewal period	The proposed change is needed as a result of changes made to	The proposed change is reasonable because it is a result of a statute change

	established by 1105.2550.	Minnesota Statutes, chapter 326A and/or to implement such changes.	and/or implements a statute change.
.3200 (C)	Added provision requiring annual reporting of CPE hours as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3300 (A)	Made change needed as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3400	Clarified provisions relating to interstate reciprocity in those situations where the provisions of 326A.14 do not apply.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and the change was needed to add the requirement that for an applicant to obtain a certificate in Minnesota under interstate reciprocity that the applicant's certificate issued by another state must be in "good standing".	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it establishes reasonable criteria upon which a certificate issued by another state can be used to obtain a certificate in Minnesota.
.3400, Subp. 1 (E)	Clarified that completion of the ethics examination required in part 1105.1800 is required.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3400, Subp. 4	Clarifies that applicants whose CPA certificate in another state was based on foreign credential must apply for a certificate in Minnesota based on international reciprocity	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The proposed change is needed to recognize	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it ensures that a foreign

	provisions and not under interstate reciprocity.	differences that exist between states on the granting of international reciprocity and ensure that certificates issued by Minnesota are based on criteria established by Minnesota Statutes and Rules.	country is substantially equivalent and that the appropriate qualifying examination is completed by a person who has relied upon a foreign credential to obtain a certificate in another state.
.3500	Made changes to the international reciprocity provisions consistent with Model UAA Rules.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules. The proposed change is also needed to clarify that the “substantially equivalent” standard does not apply to international reciprocity. The term is changed to “generally equivalent.”	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.3600	Clarified provisions relating to quality review as a result of changes made to 326A.05.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3700 (C)	Made change needed as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3700 (D)	Changed reference of “report” as a result of a change made in 1105.0100, subp. 17.	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.3800 (H)	Clarified that completion of the ethics	The proposed change is needed as a result of	The proposed change is reasonable because it is a

	examination required in part 1105.1800 is required.	changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	result of a statute change and/or implements a statute change.
.3900 (B) and (C)	Made change needed as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.3900 (D)	Changed the process by which certificates held by “certificate holders” who never obtained the required experience before January 1, 2003 are revoked.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.4000 (B) and (D)	Made change needed as a result of the three year renewal period established by 1105.2550.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.4000 (I)	Clarified that the firm has the responsibility to determine that its partners, members, shareholders, directors or officers in this state hold a proper license or registration.	The proposed change is needed, as a result of the changes made by 1105.2550 and Minnesota Statute, to recognize that the firm has the responsibility to determine that its owners resident in Minnesota have complied with Minnesota licensing/registration requirements.	The proposed change is reasonable because firm must have already determined if its Minnesota resident owners are properly licensed/registered in Minnesota for the application to be complete.
.4100 (A)	Clarified that the addition or removal of a “director” to a firm requires notification to the board consistent with 1105.4000 (D) requirements.	The proposed change is needed to recognize that a director of a CPA Firm corporation who resides in this state is of equivalent influence to a partner, member, manager or shareholder of a CPA Firm and notification to the board of the addition or	The proposed change is reasonable because it is clarifying in nature and consistent with other similar requirements for issuance of a firm permit.

		removal of such persons is required.	
.4100 (A) (8)	Added a notification requirement consistent with Model UAA Rules requirements.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes and the proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.4100 (C)	Provided a timeframe in which a firm can bring itself back in compliance with the firm ownership requirements specified in Minnesota Statutes, section 326A.05.	The proposed change is needed to recognize that firm ownership changes can occur unexpectedly and the changes provides a timeframe during which a firm may bring its ownership composition by into compliance.	The proposed change is reasonable because it provides a reasonable timeframe to correct firm ownership issues.
.4150	Adds definition of “headquarters of client” needed as a result of changes to Minnesota Statutes, sections 326A.05 and 326A.14	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.4200	Made changes needed as a result of changes made to Minnesota Statutes, sections 326A.05 and 326A.14.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.4500	Provides that persons granted a CPA certificate under Minnesota Statutes, section 326A.06, paragraph (a) can not change their certificate status from “exempt”, once such status is elected, to “active” or “inactive”.	The proposed change is needed to continue the original conditions upon which the original LPA certificate was issued-- that being that the credential needs to be continually renewed to be valid. The “exempt” status did not exist at the time the LPA certificates were originally issued.	The proposed change is reasonable in that it continues conditions which originally existed at the time the credential was issued.

.4800 (J)	Added requirement that a Firm which does not have an office in Minnesota but is required to obtain a permit under Minnesota Statutes, section 326A.05, must submit its most recent quality review reports with its Firm permit application.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.5000, subp. 2	Deleted outdated transition provisions.	The proposed change is needed to delete provisions which are no longer applicable.	The proposed change is reasonable because it deletes provisions which are no longer applicable.
.5100	Clarifying wording changes made.	The proposed change is needed to clarify that the assignment of a quality review cycle by the Board versus the actual scheduling of a quality review by the firm is the determining factor as to whether a firm is a “new firm”.	The proposed change is reasonable because it is clarifying in nature.
.5200	Updated reviewer qualifications consistent with those used in professional standards.	The proposed change is needed to update reviewer qualifications to those which are consistent with reviewer qualification contained in professional literature used by the profession	The change is reasonable because it updates the rules to requirements contained in literature in use by the profession.
.5400 (A)	Updated wording to reflect that used in professional standards and added clarifying wording with respect to when PCAOB inspection reports are to be submitted to the board.	The proposed change is needed to update the rules consistent with terminology used in professional literature and to provide clarity that the written report received by the firm on all inspections conducted by the PCAOB should be submitted to the board, not just one PCAOB inspection report every three year	The proposed change is reasonable because it uses terminology used in professional literature and it is reasonable because it is clarifying in nature.

		period.	
.5400 (C)	Added a self-reporting requirement when two or more consecutive quality reviews had a finding of other than “pass.” Also updated wording on quality review findings to that used in professional standards.	The proposed change is needed to recognize the public protection importance of quality reviews and to alert the board when two or more consecutive quality reviews are other than “pass”.	The proposed change is reasonable in that it provides the board with timely notice of deficiencies noted during a quality review so that the board may consider whether further action is needed to protect the public.
.5600	Updated wording to reflect changes in model UAA Rules.	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.5600, Subp. 1 (C) (8) and (F)	Added to grounds for disciplinary action the making of false, deceptive or misleading statements in support of a request to the board to accept the voluntary surrender of a certificate, registration or permit and clarified that the board is not precluded from changing its position with respect to not proceeding with a disciplinary action if new information becomes available.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The proposed change in item (C) is needed to provide the board with specific grounds for disciplinary action when a licensee or registrant makes a request to the board to accept a voluntary surrender of a license or registration and does not disclose to the board, when requested, all pending, anticipated or actual disciplinary action or other relevant information of which the board does not have knowledge. Further the change in item (F) is needed in order not to limit disciplinary action by the board in situations where the board originally concluded not	The proposed change in (C) is reasonable because it allows the board to take disciplinary action when a licensee or registrant voluntarily surrenders a license or registration prior to the board becoming aware of actual or pending disciplinary action by others and the licensee or registrant does not disclose such actual or pending action to the board. The proposed change in (F) is reasonable because additional facts in complex disciplinary cases often become known after considerable time has elapsed and the change allows the board to take action in those situations.

		to institute disciplinary proceedings but then obtained information which, if known earlier, would have resulted in disciplinary proceedings.	
.5800	Corrected an inappropriate rule reference.	The proposed change is needed to correct an error made in the original drafting of the rule.	The proposed change is reasonable because it corrects an inappropriate rule reference.
.5900	Deleted a requirement which did not provide useful information with respect to a hearing or conference.	The change is needed to delete the need to send a copy of Minnesota Rules 1105.5900 with a notice of hearing or conference and a copy of Minnesota Statutes, section 326A.08 with a notice of hearing.	The proposed change is reasonable because the information required by the rule either was not useful or the information had already been provided as part of the disciplinary process.
.6200	Added reference to part 1105.2450 as to factors the Board may consider in applications for relief from disciplinary penalties.	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.
.6550	Added definition of the terms “valid license” and “good standing”.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes. The change is needed to clarify what is met by “valid license” and “good standing” as those terms are used in Minnesota Rules and Statutes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change and the proposed change is reasonable because it defines terms used in Minnesota Statutes and Rules.
.6600	Added “good moral character” requirement to Registered Accounting Practitioner consistent with requirement for Certified Public Accountant	The proposed change is needed to update the provision applicable to Registered Accounting Practitioners for changes made to similar CPA provisions or make such provisions similar.	The proposed change is reasonable because it extends to Registered Accounting Practitioners requirements that are similar to those followed by CPAs.
.7000 (B), (C) and (D)	Changes made to make requirements consistent	The proposed change is needed to update the	The proposed change is reasonable because it

	with those followed by Certified Public Accountants and contained in 1105.3000 (A), (G), (K) and .3200 (B).	provision applicable to Registered Accounting Practitioners for changes made to similar CPA provisions or make such provisions similar.	extends to Registered Accounting Practitioners requirements that are similar to those followed by CPAs.
.7000 (E)	Clarified that hour limitations in 1105.3100, subpart 4 do not apply to Registered Accounting Practitioners.	The change is needed to clarify that the hour limitations do not apply to Registered Accounting Practitioners.	The proposed change is reasonable from a public protection standpoint because of the nature of the nature of the work performed by Registered Accounting Practitioners.
.7200 (A)	Clarified that the addition of a “director” to a firm requires notification to the board.	The proposed change is needed to update the provision applicable to Registered Accounting Practitioners for changes made to similar CPA provisions or make such provisions similar.	The proposed change is reasonable because it extends to Registered Accounting Practitioners requirements that are similar to those followed by CPAs.
.7200 (C)	Provided a timeframe in which a firm can bring itself back in compliance with the firm requirements specified in 1105.7200	The proposed change is needed to update the provision applicable to Registered Accounting Practitioners for changes made to similar CPA provisions or make such provisions similar.	The proposed change is reasonable because it extends to Registered Accounting Practitioners requirements that are similar to those followed by CPAs.
.7500 (C)	Moved specifics regarding document incorporated by reference to 1105.0250.	The change is needed because the specifics regarding documents incorporated by reference is contained in 1105.0250 and as a result is not needed in this part.	The proposed change is reasonable because it consolidates information regarding documents incorporated by reference into part 1105.0250.
.7800	Added to the Code of Conduct the required compliance, when applicable, with documents incorporated by reference in 1105.0250. In addition, added to the Code is required compliance with other applicable laws and regulations	The proposed change is needed as a result of changes made to the Uniform Accountancy Act and related rules.	The proposed change is reasonable because it is consistent with the Uniform Accountancy Act and related rules.

	and engagement terms which the licensee agrees to comply with.		
.7800 (J) and (K)	Added rules related to commissions and contingent fees	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.7850 (C)	Clarifies that the audit documentation and retention requirements are applicable for audit engagements performed for clients which have their headquarters in Minnesota.	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
.7900	Changes made to make rule consistent with Minnesota Statutes, section 326A.14 and to provide clarification regarding designation of and individual's "principal place of business".	The proposed change is needed as a result of changes made to Minnesota Statutes, chapter 326A and/or to implement such changes.	The proposed change is reasonable because it is a result of a statute change and/or implements a statute change.
The above table does not include an analysis for minor wording changes made by the Revisor during the preparation of the amendments to the Rules.			

**CONCLUSION**

Based on the foregoing, the proposed rules are both needed and reasonable.

June 2, 2008

Doreen Frost, Executive Director  
Board of Accountancy