

Notice of Rulemaking Hearing
Department of Commerce and Insurance
Division of Regulatory Boards
Tennessee State Board of Accountancy

There will be a hearing before the Tennessee State Board of Accountancy to consider the promulgation of amendments of rules pursuant to T.C.A. § 62-1-105. The hearing will be conducted in the manner prescribed by the Uniform Administrative Procedures Act, T.C.A. § 4-5-204 and will take place in Room 640 of the Davy Crockett Tower located at 500 James Robertson Parkway, Nashville, Tennessee at 1:30 p.m. (Central Time) on the 18th day of November, 2005.

Any individuals with disabilities who wish to participate in these proceedings (to review these filings) should contact the Department of Commerce and Insurance to discuss any auxiliary aids of services needed to facilitate such participation. Such initial contact may be made no less than ten (10) days prior to the scheduled meeting date (the date the party intends to review such filings) to allow time for the Department to determine how it may reasonably provide such aid or service. Initial contact may be made with Don Coleman, the Department's ADA Coordinator, at 500 James Robertson Parkway, 5th Floor, Nashville, Tennessee 37243 at (615) 741-0481.

For a copy of this notice of rulemaking hearing, contact: Linda Biek, 500 James Robertson Parkway, 2nd Floor, Nashville, TN 37243-1141, Tennessee State Board of Accountancy, (615) 741-2550.

Substance of Proposed Rules

Chapter 0020-1
Board of Accountancy, Licensing and Registration Requirements

Amendments

Subparagraph (c) of paragraph (1) of rule 0020-1-.04 Fees is amended by deleting the text of the subparagraph and substituting instead the following so that, as amended, subparagraph (c) shall read:

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|-----|-----|--|--|
| (1) | (c) | Renewal of certificate or registration | Sixty dollars (\$60.00) per year or one hundred twenty dollars (\$120.00) biennially |
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Authority: T.C.A. § 62-1-105(e).

Rule 0020-1-.05 Applications is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-1-.05 Applications.

- (1) Applications to take the Certified Public Accountant Examination must be made on a form provided by the Board or its designee and filed with the Board or its designee by a due date specified by the Board or its designee in the application form. All applications for initial examination or reexamination shall be accompanied by the current fee being charged by the Board or such entity as is approved by the Board.
- (2) An application will not be considered filed until the application fee and examination fee required by these rules and all required supporting documents have been received, including proof of identity as determined by the Board and specified on the application form, official transcripts and proof that the candidate has satisfied the education requirement.
- (3) A candidate who fails to appear for the examination shall forfeit all fees charged for both the application and the examination.

- (4) The Board or its designee will forward notification of eligibility for the computer-based examination to NASBA's National Candidate Database.

Authority: T.C.A. §§ 62-1-105(e) and 62-1-106.

Rule 0020-1-.06 Examinations is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-1-.06 Examinations.

- (1) The examination required by T.C.A. §62-1-106(d) shall test the knowledge and skills required for performance as an entry-level certified public accountant. The examination shall include the subject areas of accounting and auditing and related knowledge and skills as the Board may require.
- (2) Eligible candidates shall be notified of the time and place of the examination or shall independently contact the Board, or its designee, or a test center operator identified by the Board to schedule the time and place for the examination at an approved test site. Scheduling reexaminations must be made in accordance with (7) (a)2 below.
- (3) The Board shall cause the examination for certification to be graded by the AICPA. The Board may recognize the grades assigned by the AICPA. Applicants may request a grade review if the Board permits such, and the applicant pays whatever administrative charges that are assessed for a grade review.
- (4) A candidate shall be required to pass all test sections of the examination provided for in T.C.A. § 62-1-106(d) in order to qualify for a certificate. The uniform passing grade shall be established through a psychometrically acceptable standard-setting procedure and approved by the Board.
- (5) The notification given to the exam candidate regarding the grades and requirements that the candidate must achieve to pass a particular exam shall govern the grading of that exam.
- (6) All examination candidates who took a written examination prior to April, 2004 shall be required to pass all sections of the examination provided for in T.C.A. §62-1-106(d), in order to qualify for a certificate.
- (7) The following shall apply to the computer-based Uniform CPA Examination:
- (a) Candidates may take the required test sections individually and in any order. Credit for any test section(s) passed shall be valid for six (6) three-month exam cycles, without having to attain a minimum score on any failed test section(s) and without regard to whether the candidate has taken the remaining test sections.
1. Candidates must pass all four (4) test sections of the Uniform CPA Examination within the next six (6) three-month exam cycles.
 2. Candidates cannot retake a failed test section(s) in the same examination window. An examination window refers to a three-month cycle in which candidates have an opportunity to take the CPA examination (comprised of two (2) months in which the examination is available to be taken and one (1) month in which the examination will not be offered while routine maintenance is performed and the item bank is refreshed). Candidates may take the examination for two (2) out of the three (3) months within an examination window.

3. In the event a candidate does not pass all four (4) test sections of the Uniform CPA Examination within the next six (6) three-month cycles, credit for any test section(s) passed outside the six (6) three-month cycles will expire and that test section(s) must be retaken.
- (b) Candidates having earned conditional credits on the written examination, as of the start date of the computer-based Uniform CPA Examination, will retain conditional credits. "Conditional credits" means credits earned by a candidate from the written exam that are credited toward the computerized exam. The following conditional credits are for the corresponding test sections of the computer-based CPA examination:

<u>Written Examination</u>	=	<u>Computer-Based Examination</u>
Auditing	=	Auditing and Attestation
Financial Accounting and Reporting (FARE)	=	Financial Accounting and Reporting (FAR)
Accounting and Reporting (ARE)	=	Regulation (REG)
Business Law and Professional Responsibilities (LPR)	=	Business Environment and Concepts (BEC)

1. A candidate who has attained conditional credits as of the start date of the computer-based Uniform CPA Examination will be allowed a transition period to complete any remaining test sections of the CPA examination. The transition is the maximum number of opportunities remaining that candidates who have conditioned under the written examination have remaining, at the launch of the computer-based examination, to complete all remaining test sections, or the number of remaining opportunities under the written examination, multiplied by six (6) months, whichever is first exhausted.
 2. If a candidate with conditional credits does not pass all remaining test sections during the transition period, the conditional credits earned under the paper-and-pencil examination will expire and the candidate will lose credit for the test sections earned under the paper-and-pencil examination. Any test section(s) passed during the transition period is subject to the conditional provisions indicated in this section. However, a candidate with conditional credits will not lose credit for a test section of the computer-based examination that is passed during the transition period, even though more than six (6) three-month cycles may have elapsed from the date the test section is passed, until the end of the transition period.
- (c) A candidate shall retain credit for any and all test sections of an examination passed in another state if such credit would have been given, under then applicable requirements, if the candidate had taken the examination in this state.
- (d) The Board may in particular cases extend the term of conditional credit notwithstanding the requirements of these rules, upon a showing that the credit was lost by reason of circumstances beyond the candidate's control.
- (e) A candidate shall be deemed to have passed the Uniform CPA Examination once the candidate holds at the same time valid credit for passing each of the four (4) test sections of the examination. For purposes of this section, credit for passing a test section of the computer based examination is valid from the actual date of the testing event for that test section, regardless of the date the candidate actually receives notice of the passing grade.

- (8) An applicant may be required to pass an examination covering the rules of ethics and professional conduct promulgated by the Board. Such examination may be part of the examination required in T.C.A. § 62-1-106(d) or may be a separate examination.
- (9) The Board may provide for a third party administering the examination to charge each applicant a fee for each section of the examination or reexamination taken by the applicant.
- (10) The candidate shall schedule each test section with the Board or its designee and pay a candidate testing fee that includes the actual fees charged by the AICPA, NASBA, and the Test Delivery Service Provider.
- (11) Notwithstanding any other provisions under these rules, the Board may postpone scheduled examinations, release of grades, or the issuance of certificates due to a breach of examination security, unauthorized acquisition or disclosure of the contents of an examination, suspected or actual negligence, errors, omissions, or irregularities in conducting an examination, or for any other reasonable cause or unforeseen circumstance.

Authority: T.C.A. §§62-1-105(e)(9) and 62-1-106.

Subparagraph (a) of paragraph (2) of rule 0020-1-.07 Cheating is amended by deleting the text of the subparagraph, and by deleting the text of paragraph (5), and substituting instead the following, so that, as amended, subparagraph (2)(a) and paragraph (5) of rule 0020-1-.07 shall read:

0020-1-.07(2)(a)

- (2) (a) Falsifying or misrepresenting educational credentials, candidate identification, or other information required for admission to the examination;

0020-1-.07(5)

- (5) In any case where the Board or its representative permits a candidate to continue taking the examination, it may, depending on the circumstances:
 - (a) Admonish the candidate;
 - (b) Keep a record of the candidate's seat location and identifying information, and the names and identifying information of the candidates in close proximity of the candidate;
 - (c) Notify the National Candidate Database and the AICPA and/or the test center of the circumstances, so that the candidate may be more closely monitored in future examination sessions.

Authority: T.C.A. §62-1-105.

Rule 0020-1-.08 Renewal of Licenses is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-1-.08 Renewal of Licenses.

- (1) All even numbered licenses shall expire on December 31 of each even numbered year and all odd numbered licenses shall expire on December 31 of each odd numbered year. All licenses may be renewed at any time during the month of December in the year in which they expire, by submitting to the Board a completed biennial renewal form and the appropriate fee. For the purpose of this rule the license ID number shall be used.

- (2) An individual or firm choosing not to renew his, her or its license shall notify the Board of his, her or its intention prior to the expiration of that license, and shall surrender the license to the Board immediately upon its expiration.
- (3) Applications for the renewal of certificates and registrations pursuant to the Act shall be made on a form provided by the Board and shall be filed no later than the expiration date set by these rules. Applications will not be considered filed until the applicable fee prescribed in these rules is received.
- (4) Applications for renewal of certificates or registrations shall be accompanied by evidence satisfactory to the Board that the applicant has complied with the continuing professional education requirements under T.C.A. § 62-1-107(d) and Chapter 0020-5 of the Board's rules.
- (5) The Board may request additional evidence from licensees for continuing professional education requirements including continuing professional education audits (which require CPE course completion documentation). Listings of CPE courses on renewal forms are required; however, the listings are not considered evidence for this rule.
- (6) Licensees that renew more than thirty-one (31) days but less than three (3) months following their expiration date will be assessed a late penalty.
- (7) Licensees that renew more than three (3) months but less than one (1) year after their expiration date will be assessed an additional late penalty.
- (8) Licenses not renewed within (1) year of the expiration date shall be deemed to have lapsed. Any individual desiring to reinstate a lapsed license shall comply with the requirements of paragraph four (4) of this rule and paragraph five (5) of rule 0020-5-.03. The CPE hours required to be completed to reinstate a lapsed license are considered penalty hours and may not be used to offset the CPE hours required for renewal of a license.

Authority: T.C.A. §§62-1-105, 62-1-107, 62-1-108, 62-1-109, and 62-1-111.

Rule 0020-1-.10 Reinstatement of Revoked or Suspended Licenses is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-1-.10 Reinstatement of Revoked or Suspended Licenses.

- (1) A certified public accountant or public accountant whose license has been revoked or suspended and who wishes to reinstate the license shall submit to the Board an application for reinstatement of such license accompanied by the appropriate fee.
- (2) Such application shall consist of a signed and acknowledged petition which shall set forth in full the circumstances surrounding the revocation or suspension of the applicant's license, the applicant's reasons for seeking reinstatement, and any other information the applicant wishes to bring to the attention of the Board.
- (3) Such application shall be submitted to the Board at its next meeting and evaluated and reviewed for presentation at the following meeting.
- (4) In considering an application the Board may consider all activities of the applicant since the revocation or suspension was imposed, the offense for which the applicant was disciplined, the applicant's activities during the time the license was in good standing, the applicant's rehabilitative efforts, the applicant's restitution to damaged parties in the matter for which the discipline was imposed, and the applicant's general reputation for truth and professional probity. The Board may also question the applicant, complainant or individual injured by the applicant.

- (5) After consideration of the applicant's petition, the Board may in its sound discretion reinstate any revoked or suspended license. The Board shall notify such applicant of its decision in writing.
- (6) The Board may impose appropriate terms and conditions for reinstatement of a license or modification of a revocation, suspension or probation.
- (7) No application for reinstatement will be considered while the applicant is under sentence for any criminal offense, including any period during which the applicant is on court imposed probation or parole.
- (8) A certified public accountant or public accountant whose license has been suspended must meet all continuing professional education and renewal fee requirements during the term of the suspension.

Authority: T.C.A. §§62-1-105, 62-1-107(c), and 62-1-118.

Rule 0020-1-.11 Application and Renewal of CPA and PA Firm Permits is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-1-.11 Application and Renewal of CPA and PA Firm Permits.

- (1) Each CPA and/or PA firm providing accounting services or engaged in the practice of public accountancy in this state as a sole proprietorship, partnership or corporation of certified public accountants and/or public accountants shall obtain a permit from the Board for each office location for the ensuing calendar year. Applications for initial issuance and for renewal of permits pursuant to the Act shall be made on a form provided by the Board and, in the case of applications for renewal, shall be filed no earlier than two (2) months prior to and no later than the expiration date.
- (2) All CPA and PA firm permits shall expire annually on December 31. Initial applications and renewals will not be considered filed until the applicable fee and all required documents prescribed in these Rules are received by the Board. If an application for renewal is filed late, it shall also be accompanied by the appropriate late renewal penalty.
- (3) Initial applications and renewals for each office location shall disclose the following information and shall be signed by the resident manager of the office location.
 - (a) The name of the firm;
 - (b) The firm's organizational structure;
 - (c) The address of the office location;
 - (d) The name and address of each individual with an equity or voting interest in the firm;
 - (e) A listing of the percentage of equity ownership and voting rights of each owner of the firm;
 - (f) The percentage of time each non-CPA owner spends working at the firm;
 - (g) The name, address, and certificate number of each certified public accountant or public accountant employed at the office location;
 - (h) The name, address and certificate number of the resident manager of the office location;

- (i) The name and certificate number of each person responsible for supervising or providing attest services as contemplated by T.C.A. § 62-1-108(c)(2). The firm's initial application must include a completed experience affidavit for each of these individuals; and
 - (j) The type of peer review program in which the firm participates along with a copy of the reviewer's report and the acceptance letter from the last review.
- (4) Every office location shall comply with the current statutes and rules of the Tennessee State Board of Accountancy.
- (5) This rule is applicable to offices located outside of this state where such offices are engaged in the practice of public accountancy as CPA firms in this state through any person(s) holding a reciprocal certificate.

Authority: T.C.A. §§62-1-105, 62-1-108, 62-1-111(a)(12) and 62-1-113.

Paragraph (1) of rule 0020-1-.12 Notification of Firm Changes is amended by deleting the text of the paragraph and substituting instead the following so that, as amended, paragraph (1) of rule 0020-1-.12 shall read:

- (1) Firms established pursuant to T.C.A. §§62-1-108 and/or 62-1-109 shall file with the Board a written notification of any of the following events concerning the practice of public accountancy within this State within thirty (30) days after its occurrence:
- (a) Formation of a new firm;
 - (b) Addition of a partner, member or shareholder;
 - (c) Retirement, withdrawal or death of a partner, member, manager or shareholder;
 - (d) Any change in the name of the firm;
 - (e) Dissolution of the firm;
 - (f) Change in the management of any office location registered in this State;
 - (g) Establishment of a new office location providing accounting services in this state or the closing or change of address of an office location registered in this State; and
 - (h) The occurrence of any event or events which would cause such firm not to be in conformity with the provisions of the Act or these Rules.

Authority: T.C.A. §§62-1-105, 62-1-108, 62-1-111(a)(11) and 62-1-114(c).

Rule 0020-1-.13 Reciprocity and Substantial Equivalency is amended by deleting the text of the rule in its entirety and substituting instead the following, so that, as amended, the rule shall read:

0020-1-.13 Interstate Practice.

- (1) These rules provide two distinct routes for an individual already licensed in another state to be authorized to practice in this state. The applicable route depends upon whether the individual will establish a principal place of business in this state. An individual establishing a principal place of business in this state may qualify for a reciprocal license if the applicant has met the requirements of T.C.A. §62-1-107. An individual with a principal place of business in another state may offer or render services in this state if the applicant has met the requirements of T.C.A. §62-1-117.

- (2) Fees
- (a) An individual intending to practice public accountancy in Tennessee under T.C.A. §62-1-117 shall make application and file a notice of such intent with the Board's designee, NASBA. The application shall be accompanied by the applicable nonrefundable fee.
 - (b) Alternatively, an individual CPA may choose to file a notification form with the Board office, in lieu of obtaining a license, stating the intent to practice public accountancy in Tennessee. The individual CPA must be in good standing and licensed in any other state. The CPA may practice in this manner as long as the individual does not reside in Tennessee and pays the Board an annual fee as determined by the Board. Such individual shall comply with the law and rules of Tennessee and are subject to disciplinary action by the Board. Each notice shall be accompanied by the greater of a nonrefundable fee of fifty dollars (\$50.00) or an amount equal to that charged for the same privilege to the licensees of this state by the individual's state of licensure.
 - (c) An application for a reciprocal certificate shall be accompanied by a nonrefundable fee of one hundred dollars (\$100.00).
 - (d) The fee for issuance of an initial reciprocal certificate shall be one hundred dollars (\$100.00).
 - (e) The fee for biennial renewal of a reciprocal certificate shall be one hundred dollars (\$120.00).
- (3) Holders of reciprocal certificates shall comply with the continuing education requirements contained in Chapter 0020-5, and shall comply with all other requirements of the statutes and rules governing the practice of public accountancy within the State of Tennessee.

Authority: T.C.A. §§62-1-105, 62-1-107, 62-1-110, 62-1-111, 62-1-114, and 62-1-117.

Chapter 0020-2
Educational and Experience Requirements

Amendments

Paragraphs (5) and (6) of rule 0020-2-.01 Recognized Colleges and Universities are amended by deleting the text of each paragraph in its entirety and substituting instead the following, so that, as amended, paragraphs (5) and (6) of rule 0020-2-.01 shall read:

- (5) If an applicant's degree was received at an accredited college or university as defined in paragraphs 3 and 4 of this rule, but the education program used to qualify the applicant included courses taken at either a two-year or non-accredited institution before or after graduation, such courses will be deemed to have been taken at the accredited institution from which the applicant's baccalaureate degree was received; provided, however, that the courses were either accepted by virtue of inclusion in an official transcript or by certification to the Board.
- (6) A graduate of a four-year degree-granting institution which was not accredited at the time the applicant's degree was received or at the time of filing the application will be recognized by the Board as a graduate of a four year accredited college or university, provided:
 - (a) A credential evaluation service approved by the Board certifies that the applicant's degree is equivalent to a degree from an accredited educational institution defined in subsection (3) of paragraph (b); or

- (b) 1. An accredited educational institution, as defined in paragraphs 2 and 3 of this rule, accepts the applicant's non-accredited baccalaureate degree for admission to a degree program;
- 2. The applicant satisfactorily completes at least fifteen (15) semester or twenty-two (22) quarter hours in post-baccalaureate education at the accredited educational institution, of which at least nine (9) semester or thirteen (13) quarter hours shall be in accounting; and
- 3. The accredited college or university certifies that the applicant is in good standing for continuation in the graduate program or has maintained a grade point average in these courses that is necessary for graduation.

Authority: T.C.A. §§58-308, 62-1-105(e)(3), 62-1-106, and 62-1-111(12).

Rule 0020-2-.02 Education is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-2-.02 Education.

- (1) (a) An applicant will be deemed to have met the educational requirement if the applicant has earned a baccalaureate or higher degree from an accredited educational institution and obtained the minimum number of hours required by Tenn. Code Ann. § 62-1-106(c) which includes:
 - 1. At least twenty-four (24) semester or thirty-six (36) quarter hours of accounting education including the elementary level;
 - 2. Not more than three (3) semester or four (4) quarter hours may be internship programs which may be applied to the twenty-four (24) semester hours or thirty-six (36) quarter hours in accounting; and
 - 3. At least twenty-four (24) semester or thirty-six (36) quarter hours in general business education in one (1) or more of the following:
 - (i) Algebra, Calculus, Statistics, Probability
 - (ii) Business Communication
 - (iii) Business Law
 - (iv) Economics
 - (v) Ethics
 - (vi) Finance
 - (vii) Management
 - (viii) Technology/Information Systems
 - (ix) Marketing
- (b) 1. For purposes of this rule, accounting hours, other than elementary courses, above the minimum requirement may be substituted for general business education.

2. For purposes of this rule, candidates must have at least twelve (12) semester or eighteen (18) quarter hours of accounting education and at least twelve (12) semester or eighteen (18) quarter hours of general business courses at the upper division level, junior level courses or higher.
3. For purposes of this rule, one (1) graduate hour from a recognized college or university will count as one and one half (1.5) credit hours.

Authority: T.C.A. §§62-1-105(e)(3) and 62-1-106.

Subparagraph (b) of paragraph (1) of rule 0020-2-.03 Experience is amended by deleting the text of the subparagraph in its entirety and replacing it with the following language so that, as amended, subparagraph (b) of paragraph (1) of rule 0020-2-.03 shall read:

- (1) (b) The applicant shall have his or her experience verified to the Board by a licensee as defined in the Act or a licensee from another state. Acceptable experience shall include employment in industry, government, academia or public practice. In evaluating experience, the Board shall consider such factors as the complexity and diversity of the work.

Authority: T.C.A. §§62-1-105(e)(3), 62-1-106, 62-1-107, and 62-1-108.

Chapter 0020-3
Rules of Professional Conduct

Amendments

Paragraph (1) of rule 0020-3-.02 Applicability is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (1) of rule 0020-3-.02 shall read:

- (1) The provisions of this Chapter shall apply to all professional services performed in the practice of public accountancy or in the provision of accounting services, and shall apply to all licensees except:
 - (a) Where the wording of a rule indicates otherwise; and
 - (b) That a licensee who is practicing public accountancy outside the United States will not be subject to disciplinary action by the Board for departing from any of the provisions of this chapter as long as the licensee's conduct is in accord with the standards of professional conduct applicable to the practice of public accountancy in the country in which the licensee is practicing. However, where a licensee's name is associated with financial statements under circumstances which would entitle the reader to assume that United States practices are followed, the licensee shall comply with rules within this chapter.

Authority: T.C.A. §§62-1-105 and 62-1-111.

Rule 0020-3-.03 Independence is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-3-.03 Independence.

A licensee in the performance of professional services, including those who are not members of the AICPA, shall conform to the independence standards established by the AICPA, and where applicable, the United States Securities and Exchange Commission, the General Accounting Office and other regulatory or professional standards setting bodies.

Authority: T.C.A. §§62-1-105(e)(4) and 62-1-111.

Paragraphs (2), (3), (4) and (5) of rule 0020-3-.05 Contingent Fees, Commissions and Other Consideration are amended by deleting the text of the paragraphs in their entirety and substituting instead the following so that, as amended, paragraphs (2), (3), (4) and (5) of rule 0020-3-.05 shall read:

- (2) A licensee shall neither pay any consideration or commission to obtain a client nor accept any consideration or commission when the licensee or the licensee's firm also performs for that client the services listed in T.C.A. §62-1-122(1) through (3). This prohibition applies during the period in which the licensee is engaged to perform any of the listed services and the period covered by any historical financial statements involved in such listed services.
- (3) A licensee who is not prohibited by this rule from performing services for or receiving consideration or a commission and who is paid or expects to be paid consideration or a commission shall disclose that fact, in compliance with the requirements of T.C.A. §62-1-122 and Rule 0020-3-.06, to any person to whom the licensee recommends or refers a product or service to which the commission or consideration relates.
- (4) Any licensee who accepts consideration or a commission for a referral fee shall disclose such acceptance or payment to the client in compliance with the requirements of T.C.A. §62-1-22 and Rule 0020-3-.06.
- (5) A licensee shall not receive or agree to receive a contingent fee from a client for the following:
 - (a) Performance of any professional services for a client for whom the licensee or person associated with the licensee performs any of the services listed in T.C.A. §62-1-123(b)(1)(A) through (C); or
 - (b) Preparation of an original tax return.

This prohibition applies during the period in which the licensee is engaged to perform any of the listed services and the period covered by any historical financial statements involved related to such services.

Authority: T.C.A. §§62-1-105, 62-1-111, 62-1-122 and 62-1-123.

Rule 0020-3-.06 Disclosures is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-3-.06 Disclosures.

- (1) A licensee who is not prohibited from performing services or receiving consideration or a commission and who is paid or expects to be paid consideration or a commission or other consideration shall disclose that fact in compliance with the requirements of this rule to any person to whom the licensee recommends or refers a product or service to which the commission relates.

- (2) Any licensee who accepts consideration or a commission for a referral shall disclose such acceptance or payment to the client in compliance with the requirements of this rule.
- (3) Any licensee who directly or indirectly accepts or agrees to accept a contingent fee shall disclose the terms of such contingent fee to the client in compliance with the requirements of this rule.
- (4) The disclosure must:
 - (a) Be in writing and be clear and conspicuous;
 - (b) State the amount of the consideration or commission or the basis on which it will be computed; and
 - (c) Be made at or prior to the time of the recommendation or referral of the product or service for which consideration or commission is paid or prior to the client retaining the licensee to whom the client has been referred for which a referral fee is paid; or
 - (d) Be made prior to the time the licensee undertakes representation of or performance of the service upon which a contingent fee will be charged.
- (5) The following form may be used to comply with the disclosures required by this rule and Tenn. Code Ann. §§62-1-122 and 62-1-123. A form which contains additional information may be used by a licensee if the form includes the minimum disclosure requirements.

STATEMENT OF DISCLOSURE OF COMMISSIONS, CONTINGENT FEES,
AND OTHER CONSIDERATION

Certified public accountants and public accountants are required by law to disclose to clients the receipt or payment of certain commissions and contingent fees.

The purpose of this disclosure statement is to acknowledge that proper disclosure has been made and that a copy of this statement has been provided to each of the signatories thereof.

I hereby acknowledge that on this _____ day of _____, 20____.

_____ has disclosed that he/she/the firm will receive/pay a
CPA/PA/Firm

commission/contingent fee/consideration of _____
AMOUNT

in relation to goods or services he/she/the firm has agreed to provide or recommend.

Client (signature)

Date

CPA/PA/Firm (signature)

Date

Authority: T.C.A. §§62-1-105, 62-1-111, 62-1-122 and 62-1-123.

Rule 0020-3-.07 Competence is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-3-.07 Competence.

- (1) A licensee shall comply with the following standards and with any interpretations thereof by bodies designated by the AICPA, or by other entities having similar generally recognized authority.
 - (a) Professional Competence. Undertake only those professional services that the licensee or the licensee's firm can reasonably expect to be completed with professional competence.
 - (b) Due Professional Care. Exercise due professional care in the performance of professional services.
 - (c) Planning and Supervision. Adequately plan and supervise the performance of professional services.
 - (d) Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Authority: T.C.A. §§62-1-105(e)(4) and 62-1-111.

Rule 0020-3-.08 Compliance with Standards is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-3-.08 Compliance with Standards.

A licensee who performs attest, management consulting, tax, or other professional services shall comply with standards promulgated by the American Institute of Certified Public Accountants or by other entities having similar authority as recognized by the Board.

Authority: T.C.A. §§62-1-105(e)(4) and 62-1-111.

Paragraph (1) of rule 0020-3-.09 Accounting Principles is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (1) of rule 0020-3-.09 shall read:

- (1) A licensee shall not:
 - (a) Express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles; or
 - (b) State that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles if such statements or data contain any departure from an accounting principle promulgated by bodies designated by the AICPA to establish such principles, which departure has a material effect on the statements or data taken as a whole.

Authority: T.C.A. §§62-1-105(e)(4) and 62-1-111.

Subparagraphs (a) and (b) of paragraph (1) of rule 0020-3-.11 Records are amended by deleting the text of the subparagraphs in their entirety and substituting instead the following so that, as amended, subparagraphs (a) and (b) of paragraph (1) of rule 0020-3-.11 shall read:

- (1) A licensee shall, upon request made within a reasonable time, furnish to his or her client or former client:

- (a) A copy of any report or other documentation belonging to, or obtained from or on behalf of, the client, which the licensee removed from the client's custody. The licensee may make and retain copies of such documents when they form the basis for work performed by the licensee;
- (b) Any accounting or other documents belonging to, or obtained from or on behalf of, the client, which the licensee removed from the client's premises or received from the client's custody. The licensee may make and retain copies of such documents when they form the basis for work performed by the licensee; and

Authority: T.C.A. §§62-1-105(e)(4) and 62-1-115.

Paragraph (1) of rule 0020-3-.12 Discreditable Acts is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (1) of rule 0020-3-.12 shall read:

- (1) A licensee shall not commit any act that reflects adversely on the profession.

Authority: T.C.A. §§62-1-105 and 62-1-111.

Rule 0020-3-.15 Firms is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-3-.15 Firms.

- (1) A CPA or PA firm name is misleading under § 62-1-113(i) if, among other things, its name:
 - (a) Implies the existence of a corporation when the firm is not a corporation;
 - (b) Implies the existence of a partnership when the firm is not a partnership;
 - (c) Is similar to or the same as existing fictitious names within the State of Tennessee;
 - (d) Tends to mislead regarding the nature of the business or the affiliation of the trade name user with another business entity;
 - (e) Contains more than one (1) fictitious name;
 - (f) Includes the name of an individual whose license has been suspended or revoked by the Board;
 - (g) Includes the name of a person who is neither a present nor a past partner, member or shareholder of the firm; or
 - (h) Includes the name of a person who is not a CPA, if the title "CPAs" is included in the firm name.
- (2) A fictitious CPA or PA firm name (that is, one not consisting of the names or initials of one or more present or former partners, members or shareholders) may not be used by a CPA firm unless such name has been registered with and approved by the Board, and it is not false or misleading.
- (3) The Board may disapprove of the use of any fictitious name that falls within one (1) of the prohibitions listed in paragraph (1) of this rule or if it determines after notice and hearing that the trade name is deceptive.

- (4) A certified public accountant or public accountant may practice under his/her own name or that of inactive or deceased partners or shareholders who were certified public accountants or public accountants. A partner or shareholder surviving the death or withdrawal (unless (1)(f) applies) of all other partners or shareholders may continue to practice under the partnership or professional association name for up to two (2) years after becoming a sole practitioner.
- (5) When a firm name violation is determined to exist, the firm shall have sixty (60) days after notification by the Board to come into compliance with all applicable rules and statutes.

Authority: T.C.A. §§62-1-105, 62-1-108, 62-1-111 and 62-1-113(i).

Paragraph (1) of rule 0020-3-.16 Notification to the Board is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (1) of rule 0020-3-.16 shall read:

- (1) A licensee shall notify the Board in writing within thirty (30) days of any change of name, address and, in the case of individual licensees, change of employment.

Authority: T.C.A. §§62-1-105 and 62-1-111(a)(12)(c).

Chapter 0020-4
Disciplinary Action and Civil Penalties

Amendments

Paragraph (1) of rule 0020-4-.02 Civil Penalties is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (1) of rule 0020-4-.02 shall read:

- (1) The Tennessee State Board of Accountancy may, in addition to or in lieu of any other lawful disciplinary action, assess civil penalties for each separate violation of statutes, rules or orders enforceable by the Board in accordance with the following schedule:

<u>Violation</u>	<u>Penalty</u>
Tenn. Code Ann. § 62-1-111(a)(1)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(2)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(3)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(4)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(5)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(6)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(7)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(8)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(9)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(10)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(11)	\$0-\$1000
Tenn. Code Ann. § 62-1-111(a)(12)	\$0-\$1000

Authority: T.C.A. § 56-1-308, 62-1-105, 62-1-111, 62-1-111(a)(2) and 62-1-117.

Subparagraph (c) of paragraph (1) of rule 0020-4-.03 Grounds for Discipline Against Licensees is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, subparagraph (c) of paragraph (1) of rule 0020-4-.03 shall read:

- (1) (c) Violations of the Act or of rules promulgated under the Act, include but are not limited to:
1. Using the CPA or PA title or providing attest services in this State without a certificate, registration or permit to practice or without properly qualifying to practice across state lines under the substantial equivalency provision of the Act;
 2. Using or attempting to use a certificate, registration or permit which has been surrendered, suspended or revoked;
 3. Making any false or misleading statement, in support of an application for a certificate, registration or a permit filed by another; and
 4. Failure of a licensee to provide any explanation requested by the Board regarding evidence submitted by the licensee in support of an application filed by another, or regarding a failure or refusal to submit such evidence;
 5. Failure by a licensee to furnish for inspection upon request by the Board or its representative documentation relating to any evidence submitted by the licensee in support of such an application;
 6. Failure to satisfy the continuing professional education requirements set out in the Act and/or failure to comply with the continuing education requirements of these rules;
 7. Failure to comply with professional standards as to the attest experience requirement for those who supervise attest engagements and/or sign reports on financial statements; or
 8. Failure to comply with the peer review requirements set out in the Act and these rules.

Authority: T.C.A. §§62-1-105, 62-1-111, 62-1-111(a)(2), 62-1-113 and 62-1-117.

Chapter 0020-5
Continuing Education

Amendments

Rule 0020-5-.02 Purpose is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-5-.02 Purpose.

The Tennessee Accountancy Act of 1998 mandates compliance with continuing education requirements as a prerequisite for renewal of licenses issued by the Board. The purposes of this chapter are to prescribe the basic continuing education requirements for present and future license holders; to establish standards by which continuing education programs will be evaluated for awarding of credit; and to assure compliance with the Act by requiring periodic reporting of educational achievements.

Authority: T.C.A. §§62-1-105(e)(3), 62-1-107, 62-1-108(a), 62-1-109(a)(3) and 62-1-111(a)(10).

Rule 0020-5-.03 Basic Requirements is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-5-.03 Basic Requirements.

- (1) A license holder seeking regular biennial renewal shall, as a prerequisite for such renewal, show that he or she has completed no less than eighty (80) hours of qualified continuing professional education during the two (2)-year period immediately preceding renewal, with a minimum of twenty (20) hours in each year with specifications as follows:
 - (a) All license holders shall complete at least forty (40) hours in the subject areas of accounting, accounting ethics, attest, taxation, or management advisory services;
 - (b) All license holders shall complete a board-approved four (4) hour ethics course designed to familiarize the licensee with the accountancy law and rules as well as professional ethics;
 - (c) License holders engaged in the attest function, shall biennially complete at least twenty (20) hours in the subject areas of attest and accounting theory and practice in fulfilling the above requirements;
 - (d) License holders engaged to testify in a Tennessee court(s) as expert witnesses in the areas of accounting, attest, management advisory services, or tax shall have completed, within the current or most recent renewal period, at least twenty (20) hours in the subject area(s) (as noted in this paragraph) concerning such expert testimony; and
 - (e) Up to forty (40) CPE hours taken in excess of the eighty (80) hour requirement for each two year period may be applied to the requirement of the next succeeding two year renewal cycle. License holders must maintain a list of CPE which will be used for carry forward and must submit that listing as requested by the Board. Failure to do so will result in the disallowance of carry-forward hours.
- (2) A license holder seeking to renew an initial certificate issued less than two (2) years but more than one (1) year prior to expiration must provide evidence of having completed at least forty (40) hours of continuing education, of which twenty (20) hours shall be in the subject areas of accounting, accounting ethics, attest, tax, or management advisory services. Licensees seeking to renew an initial certificate issued less than one year prior to expiration will be exempt from CPE requirements for that renewal period.
- (3) Upon application supported by such evidence as the Board may require, those licensees not practicing in Tennessee, who do not perform or offer to perform for the public one (1) or more kinds of services involving the use of accounting or auditing skills, including the issuance of reports on financial statements or one or more kinds of management advisory, financial advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters, may be exempted from any continuing professional education requirements provided that:
 - (a) Licensees granted such an exemption must place the word "inactive" adjacent to their CPA title or PA title when used in any written form with the exception of their certificate or registration;
 - (b) Individuals exempt under this paragraph must complete eighty (80) hours of CPE in the areas of accounting, accounting ethics, attest, taxation, or management advisory services, during the twenty-four (24) month period preceding the date of their request for the reactivation of their license. The CPE hours required to reactivate a license may also be used as credit toward the renewal requirement so long as those hours are completed within the two (2) year window prior to the licensee's next December 31 renewal date.

- (4) Licensees who surrender their licenses in good standing may reactivate a license by complying with this subsection.
- (5) Upon application supported by such evidence as the Board may require, licensees age seventy (70) and over, disabled for more than six (6) months or in active military service may be exempted from payment of a license renewal fee and/or CPE requirements so long as they do not practice public accountancy or offer accounting services to the public.
- (6) An applicant for renewal whose license has lapsed as set forth under Rule 0020-1-.08(8) shall complete no less than eighty (80) hours of CPE in the areas of accounting, accounting ethics, attest, taxation, or management advisory services, during the six (6) month period preceding the date of reapplication. The CPE hours required to reinstate a lapsed license are considered penalty hours and may not be used to offset the CPE hours required for renewal of a license.
- (7) A non-resident licensee seeking renewal of a license in this state shall meet the CPE requirement of this rule by meeting the CPE requirements for renewal of a license in the state in which the licensee's principal office is located.
 - (a) Non-resident applicants for renewal shall demonstrate compliance with the CPE renewal requirements of the state in which the licensee's principal office is located by signing a statement certifying to that effect on the renewal application of this state.
 - (b) If the state in which a non-resident licensee's principal office is located has no CPE requirements for renewal of a license, the non-resident licensee must comply with all CPE requirements for renewal of a license in this state.

Authority: T.C.A. §§62-1-105(e)(3), 62-1-107, 62-1-111, 62-1-111(a)(12).

Paragraph (8) of rule 0020-5-.04 Qualifying Programs is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (8) of rule 0020-5-.04 shall read:

- (8) CPE credit may be allowed for the successful completion of exams for Certified Management Accountant (CMA), Certified Information Systems Auditor (CISA), as well as other similar exams approved by the Board. Credit will be awarded at a rate of five (5) times the length of each exam taken and limited to fifty percent (50%) of the total CPE required under Rule 0020-5-.03.

Authority: T.C.A. §§62-1-105(e)(3) and 62-1-107.

Rule 0020-5-.05 Sponsors is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-5-.05 Sponsors.

- (1) Prior to offering continuing education program(s), a sponsor who is not exempt under this rule must register as follows:
 - (a) Those sponsors offering program(s) which total more than sixteen (16) hours per year or offering program(s) more than five (5) times per year must register with the NASBA National Registry of CPE Sponsors.
 - (b) Those sponsors offering program(s) which total sixteen (16) hours or less per year or offering program(s) five (5) times or less per year must:
 1. Register with the NASBA National Registry of CPE Sponsors, or

2. Register with the NASBA Tennessee Roster of CPE Sponsors.

- (2) The sponsor of each continuing education program registered with the NASBA National Registry or Tennessee Roster of CPE Sponsors shall comply with all requirements set forth by NASBA in order to maintain such registration.
- (3) The following are exempt from registering with either the NASBA National Registry or Tennessee Roster of CPE Sponsors:
 - (a) Professional accounting organizations [e.g. AICPA, Tennessee Society of Certified Public Accountants (TSCPA), Tennessee Association of Accountants (TAA), Institute of Management Accountants (IMA), or other similar organizations approved by the Board];
 - (b) Universities or colleges recognized under Rule 0020-2-.01;
 - (c) Firms or other entities offering organized in-firm or in-house educational programs for their employees and clients without charge;
 - (d) Governmental entities.
- (4) The sponsor of any continuing education program approved or exempted from registration by the Board must advise attendees of such approval or exemption, and issue to attendees certificates of completion that include:
 - (a) Sponsor name;
 - (b) Date(s) of training;
 - (c) Title of program;
 - (d) CPE subject code;
 - (e) CPE credit awarded.
- (5) Those entities or organizations exempt from registration under paragraph (5) of this rule shall keep detailed records of the following for a period of five (5) years after the date of the presentation of the program:
 - (a) The date and location of the program presentation;
 - (b) The name of each instructor or discussion leader;
 - (c) A list of license holders attending each program presentation;
 - (d) A written outline of the program presentation; and
 - (e) The number of continuing education hours allowable.
- (6) Approval of any continuing education program may be withdrawn by the Board if the sponsor of such program fails to comply with the provisions of this chapter.

Authority: T.C.A. §§62-1-105(e)(3) and 62-1-107.

Paragraph (1) of rule 0020-5-.07 Extension of Time is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, paragraph (1) of rule 0020-5-.07 shall read:

- (1) The Board may, upon written request, extend the time up to six (6) months within which license holders must comply with the requirements of this chapter for reasons of poor health, military service, foreign residence or other good cause.

Authority: T.C.A. §§62-1-105(e)(3) and 62-1-107.

Chapter 0020-6
Peer Review Program

Amendments

Rule 0020-6-.02 Purpose is amended by deleting the text of the rule in its entirety and substituting instead the following so that, as amended, the rule shall read:

0020-6-.02 Purpose.

The purpose of the Peer Review Program (Program) is to improve the quality of financial reporting and to assure that the public can rely on the fairness of presentation of financial information on which licensees issue reports. Appropriate educational programs or rehabilitation procedures will ordinarily be recommended or required where professional services do not comply with applicable professional standards; however, when a licensee is unwilling or unable to comply with such standards, or a licensee's professional services are so egregious as to warrant disciplinary action, such action may be taken as the appropriate means of protecting the public interest.

Authority: T.C.A. §§62-1-105(e)(6), 62-1-111(a)(12) and (14) and 62-1-201.

Paragraph (1) of rule 0020-6-.03 Review Committee is amended by deleting the text of the paragraph in its entirety and substituting instead the following so that, as amended, the paragraph (1) of rule 0020-6-.03 shall read:

- (1) The Board shall appoint a peer review oversight committee (the Committee) to assist it in the implementation of the Program. The Committee shall be comprised of three licensees in good standing, one from each grand division of the state. Committee members shall serve for a term of three (3) years but may be reappointed by the Board at the end of each term.

Authority: T.C.A. §§62-1-105(e)(6), 62-1-111(a)(12) and (14) and 62-1-201.

Paragraphs (2) and (6) of rule 0020-6-.04 Basic Requirements are amended by deleting the text of the paragraphs in their entirety and substituting instead the following so that, as amended, paragraphs (2) and (6) of rule 0020-6-.04 shall read:

- (2) Each firm location that performs one (1) or more audit engagement(s) shall have an on-site peer review. Firm locations that perform only compilations or reviews in accordance with SSARS may have an off-site peer review.
- (6) Firm locations not providing attest services shall not be required to undergo a peer review.

Authority: T.C.A. §§62-1-105(e)(6) and 62-1-201.

I certify that this is an accurate and complete representation of the intent and scope of the rulemaking proposed by the Tennessee State Board of Accountancy.

Ernest Sykes, Jr.
Ernest Sykes, Jr.
Staff Attorney
Department of Commerce and Insurance

Subscribed and sworn to before me this 30th day of September, 2005.

Catharine A. Turner
Notary Public

My Commission expires on the 27th day of January, 2007.

The notice of rulemaking hearing set out herein was properly filed in the Department of State on this the 30 day of Sept., 2005.

Riley C. Darnell
Riley C. Darnell
Secretary of State

By: [Signature]

