

October 31, 2009

Courtney Cowgill, CPA, President
Ofelia Duran, Program Director
Colorado State Board of Accountancy
1560 Broadway, Suite 1350
Denver, CO 80202

Dear Ms. Cowgill and Ms. Duran:

Thank you for your letter of October 7, 2009, expressing the Colorado State Board of Accountancy's concern about the testing of international standards on the Uniform CPA Examination.

Your letter raises a number of interesting points. One is whether or not students will have access to educational opportunities to learn IFRS. The AICPA recently released its report on the supply of accounting graduates and demand for recruits¹. That report included responses to two questions related to inclusion of IFRS in the college curriculum. Eighty percent of respondents to the question "Does your school offer courses which include IFRS material?" responded affirmatively. In response to a question concerning when schools anticipated adding IFRS to the curriculum, 80% responded it was already included, 15% indicated it would be incorporated in 2009, 4% targeted 2010 and the remaining 1% responded that it would be included in 2011. These results suggest that academia is on top of the issue of providing IFRS instruction to students.

Like you, the AICPA Board of Examiners (BOE) has been following the national discussion on the SEC Roadmap and the statements being made about the eventual adoption of IFRS. Recent statements by the SEC's Chief Accountant, James Kroeker, indicate that the roadmap has re-emerged as a priority for the SEC².

Since the CPA Examination is a licensing examination, the knowledge and skills tested must be those that are important for entry-level CPAs. Thus, the key question to be answered is whether or not knowledge of IFRS is important at entry, not the outcome of the national debate on IFRS or the actions of the SEC. Best practice in testing defines the entry-level knowledge and skills to be tested through the conduct of a practice analysis or other techniques to determine the knowledge and skills needed for safe and effective practice³.

The recently issued *Content and Skill Specification Outlines for the Uniform CPA Examination* (CSOs/SSOs) were developed through a practice analysis study authorized by the BOE. The Psychometric Oversight Committee (POC) of the BOE developed the methodology for the practice analysis and oversaw its implementation. The practice analysis approach included a large-scale survey and consultations with many panels of subject-matter experts (SMEs), the Content Committee of the BOE and its preparation subcommittees, panels of supervisors of entry-level CPAs from a range of practice settings, educators, accounting standard-setting bodies, and regulatory agencies.

¹ 2009 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits (<http://ceae.aicpa.org/Resources/Publications+Reports/2009+Trends+in+the+Supply+of+Accounting+Graduates+and+the+Demand+for+Public+Accounting+Recruits.htm>)

² "Global Standards Alive and Kicking, SEC Accounting Chief Says," CFO.com. September 17, 2009.

³ "Standards for Educational and Psychological Testing" 1999 American Educational Research Association, American Psychological Association, National Council on Measurement in Education.

The Content Committee of the BOE supervised the conduct of the practice analysis. Oversight of the entire process was provided by the Practice Analysis Oversight Group (PAOG), comprised of members selected to provide broad stakeholder representation, including state board members. The results of the practice analysis, which was completed in 2008, supported the conclusion that international standards are appropriate for inclusion on the CPA Examination (i.e., they are relevant and frequently used by entry-level CPAs). The Content Committee and its Preparation Subcommittees concluded that the results of the practice analysis, supported by both the AICPA Council's recognition of the International Accounting Standards Board as an approved standard setter in 2008 and the Security and Exchange Commission's decision to allow foreign companies to report using IFRS without reconciling to U.S. GAAP in 2007, warranted inclusion of IFRS in the specifications for the CPA Examination.

During the course of the practice analysis, an Exposure Draft entitled "Proposed Content and Skill Specifications for the Uniform CPA Examination" was distributed in April, 2008, soliciting feedback from stakeholders, and any interested parties from the general public. Of the fifty responses to the Exposure Draft, over one-third of the respondents commented specifically about IFRS, and most of those responses either supported the inclusion of IFRS in the CSOs/SSOs or recommended monitoring IFRS and including questions on IFRS on a timely basis.

- Nine respondents, including the Colorado State Board of Accountancy, voiced support for inclusion of IFRS.
- Five respondents expressed varying degrees of concern about the inclusion of IFRS.
- Four additional respondents expressed the need for the BOE to closely monitor IFRS and react on a timely basis to include them in the examination when appropriate.

Following the completion of the practice analysis, an Advisory Group was established to further evaluate IFRS and other international standards, in order to ensure that topics from those standards that are relevant and frequently used by entry-level CPAs are appropriately included in the scope of the CSOs/SSOs. The Advisory Group included CPAs and others who use IFRS and are familiar with the work performed by entry-level CPAs with respect to IFRS. This process also confirmed that entry-level CPAs do work with IFRS and, in fact, have been doing so for some time. For example, U.S. companies with foreign subsidiaries or foreign companies that have U.S. subsidiaries often have to convert financial statements for consolidation purposes. The Advisory Group noted that CPAs are likely to need to be able to work in both U.S. GAAP and IFRS for some time to come. Therefore, both U.S. GAAP and IFRS will be tested, with IFRS being a relatively small proportion of the content for the time being.

Consistent with the practice analysis findings, additional support for the testing of IFRS on the CPA Examination can be found in the Final Report of the U.S. Treasury Department's Advisory Committee on the Auditing Profession, issued in September, 2008, for the purpose of improving the sustainability of the public company auditing profession. That report stated as follows:

The American Institute of Certified Public Accountants (AICPA) already regularly analyzes and updates its examination content, through practice content analysis and in conjunction with the AICPA Board of Examiners, which comprises members from the profession and states boards of accountancy. The Committee recommends that such changes remain a focus to ensure that both the 150 semester hour curriculum as well as examination content reflect in a timely manner important ongoing market developments and investor needs, such as the increasing use of international financial reporting standards (IFRS), expanded fair value measurement and reporting, increasingly complex transactions,

new Public Company Accounting Oversight Board (PCAOB) auditing and professional standards, risk-based judgment, and technological innovations in financial reporting.⁴

The Treasury Report further recommended that market developments, including IFRS, be reflected in the CPA Examination as soon as practicable, but not later than 2011.

The Board of Examiners remains committed to ensuring that the content of the CPA Examination is regularly updated to reflect changes in the profession as they impact entry-level practice. It is the conclusion of the BOE, as a result of the practice analysis and responses to the Exposure Draft, as well as other influences such as the Treasury Report, that IFRS is entry-level and should be included on the examination when the Content and Skills Specifications become effective in 2011. I hope you will agree that the process the BOE authorized and the conclusions it reached based on that process were appropriate.

I value your interest in the CPA Examination and your input, and hope this information addresses your concerns. Should you have any questions or wish to submit additional comments, I would be happy to discuss them with you.

Sincerely,



Colleen K. Conrad, CPA
Immediate Past Chair, Board of Examiners

cc: David Costello, NASBA President and CEO
Barry Melancon, AICPA President and CEO
Doug Warren, Chair, Board of Examiners

⁴ Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury, Final Report (September, 2008), available at <http://www.treas.gov/offices/domestic-finance/acap/index.shtml>.