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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2015

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A N A C T

RELATING TO INSURANCE-CORPORATE GOVERNANCE ANNUAL DISCLOSURE

Introduced By: Representatives Kennedy, and Shekarchi

Date Introduced: March 13, 2015

Referred To: House Corporations

(Business Regulation)

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 27 of the General Laws entitled "INSURANCE" is hereby amended
2 by adding thereto the following chapter:

3 CHAPTER 1.2

4 CORPORATE GOVERNANCE ANNUAL DISCLOSURE

5 **27-1.2-1. Purpose and scope.** -- (a) The purpose of this chapter is to:

6 (1) Provide the insurance commissioner a summary of an insurer or insurance group's
7 corporate governance structure, policies and practices to permit the commissioner to gain and
8 maintain an understanding of the insurer's corporate governance framework;

9 (2) Outline the requirements for completing a corporate governance annual disclosure
10 with the insurance commissioner; and

11 (3) Provide for the confidential treatment of the corporate governance annual disclosure
12 and related information that will contain confidential and sensitive information related to an
13 insurer or insurance group's internal operations and proprietary and trade secret information
14 which, if made public, could potentially cause the insurer or insurance group competitive harm or
15 disadvantage.

16 (b) Nothing in this chapter shall be construed to prescribe or impose corporate
17 governance standards and internal procedures beyond that which is required under applicable
18 state corporate and insurance laws. Notwithstanding the foregoing, nothing in this chapter shall
19 be construed to limit the commissioner's authority, or the rights or obligations of third parties,

1 pursuant to chapter 13.1 of title 27.

2 (c) The requirements of this chapter shall apply to all insurers domiciled in this state.

3 **27-1.2-2. Definitions. --** (a) As used in this chapter:

4 (1) "Commissioner" means the director of the department of business regulation and any
5 assistant to the director designated and authorized by him or her while acting under that
6 designation;

7 (2) "Corporate governance annual disclosure" or "CGAD" means a confidential report
8 filed by the insurer or insurance group made in accordance with the requirements of this chapter;

9 (3) "Insurance group" mean those insurers and affiliates included within an insurance
10 holding company system as defined in § 27-35-1;

11 (4) "Insurer" shall have the same meaning as set forth in § 27-54.1-1(5), except that it
12 shall not include agencies, authorities or instrumentalities of the United States, its possessions and
13 territories, the Commonwealth of Puerto Rico, the District of Columbia, or a state or political
14 subdivision of a state; and

15 (5) "ORSA Summary Report" means the report filed in accordance with § 27-77-1.

16 **27-1.2-3. Disclosure requirement. --** (a) An insurer, or the insurance group of which the
17 insurer is a member, shall, no later than June 1 of each calendar year, submit to the commissioner
18 a corporate governance annual disclosure ("CGAD") that contains the information described in §
19 27-1.2-5(b). Notwithstanding any request from the commissioner made pursuant to subsection (c)
20 of this section, if the insurer is a member of an insurance group, the insurer shall submit the report
21 required by this section to the commissioner of the lead state for the insurance group, in
22 accordance with the laws of the lead state, as determined by the procedures outlined in the most
23 recent financial analysis handbook adopted by the National Association of Insurance
24 Commissioners ("NAIC").

25 (b) The CGAD must include a signature of the insurer or insurance group's chief
26 executive officer or corporate secretary attesting to the best of that individual's belief and
27 knowledge that the insurer has implemented the corporate governance practices and that a copy of
28 the disclosure has been provided to the insurer's board of directors or the appropriate committee
29 thereof.

30 (c) An insurer not required to submit a CGAD under this section shall do so upon the
31 commissioner's request.

32 (d) For purposes of completing the CGAD, the insurer or insurance group may provide
33 information regarding corporate governance at the ultimate controlling parent level, an
34 intermediate holding company level and/or the individual legal entity level, depending upon how

1 the insurer or insurance group has structured its system of corporate governance. The insurer or
2 insurance group is encouraged to make the CGAD disclosures at the level at which the insurer's
3 or insurance group's risk appetite is determined, or at which the earnings, capital, liquidity,
4 operations, and reputation of the insurer are overseen collectively and at which the supervision of
5 those factors are coordinated and exercised, or the level at which legal liability for failure of
6 general corporate governance duties would be placed. If the insurer or insurance group
7 determines the level of reporting based on these criteria, it shall indicate which of the three (3)
8 criteria was used to determine the level of reporting and explain any subsequent changes in level
9 of reporting.

10 (e) The review of the CGAD and any additional requests for information shall be made
11 through the lead state as determined by the procedures within the most recent financial analysis
12 handbook.

13 (f) Insurers providing information substantially similar to the information required by this
14 chapter in other documents provided to the commissioner, including proxy statements filed in
15 conjunction with Form B requirements, or other state or federal filings provided to this
16 department shall not be required to duplicate that information in the CGAD, but shall only be
17 required to cross reference the document in which the information is included.

18 **27-1.2-4. Rules and regulations.** -- The commissioner may, in accordance with the
19 administrative procedures act, chapter 35 of title 42, issue such rules, regulations and orders as
20 shall be necessary to carry out the provisions of this chapter.

21 **27-1.2-5. Contents of corporate governance annual disclosure.** -- (a) The insurer or
22 insurance group shall have discretion over the responses to the CGAD inquiries, provided the
23 CGAD shall contain the material information necessary to permit the commissioner to gain an
24 understanding of the insurer's or group's corporate governance structure, policies, and practices.
25 The commissioner may request additional information that he or she deems material and
26 necessary to provide the commissioner with a clear understanding of the corporate governance
27 policies, the reporting or information system or controls implementing those policies.

28 (b) Notwithstanding the provisions of subsection (a) of this section, the CGAD shall be
29 prepared consistent with the corporate governance annual disclosure regulation adopted by the
30 department and supporting information shall be maintained and made available upon examination
31 or upon request of the commissioner.

32 **27-1.2-6. Confidentiality.** -- (a) Documents, materials or other information including the
33 CGAD, in the possession or control of the department of business regulation, division of
34 insurance, that are obtained by, created by or disclosed to the commissioner or any other person

1 under this chapter, are recognized by this state as being proprietary and to contain trade secrets.
2 All such documents, materials or other information shall be confidential by law and privileged,
3 shall not be deemed "public records" or be subject to access pursuant to chapter 2 of title 38, shall
4 not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any
5 private civil action. However, the commissioner is authorized to use the documents, materials or
6 other information in the furtherance of any regulatory or legal action brought as a part of the
7 commissioner's official duties. The commissioner shall not otherwise make the documents,
8 materials or other information public without the prior written consent of the insurer. Nothing in
9 this section shall be construed to require written consent of the insurer before the commissioner
10 may share or receive confidential documents, materials or other CGAD-related information
11 pursuant to subsection (c) below to assist in the performance of the commissioner's regular
12 duties.

13 (b) Neither the commissioner nor any person who received documents, materials or other
14 CGAD-related information, through examination or otherwise, while acting under the authority of
15 the commissioner, or with whom such documents, materials or other information are shared
16 pursuant to this chapter shall be permitted or required to testify in any private civil action
17 concerning any confidential documents, materials, or information subject to subsection (a) of this
18 section.

19 (c) In order to assist in the performance of the commissioner's regulatory duties, the
20 commissioner:

21 (1) May, upon request, share documents, materials or other CGAD-related information
22 including the confidential and privileged documents, materials or information subject to
23 subsection (a) of this section, including proprietary and trade secret documents and materials with
24 other state, federal and international financial regulatory agencies, including members of any
25 supervisory college as set forth in § 27-35-5.5 with the NAIC, and with third-party consultants
26 pursuant to § 27-1.2-7, provided that the recipient agrees in writing to maintain the confidentiality
27 and privileged status of the CGAD-related documents, material or other information and has
28 verified in writing the legal authority to maintain confidentiality; and

29 (2) May receive documents, materials or other CGAD-related information, including
30 otherwise confidential and privileged documents, materials or information, including proprietary
31 and trade-secret information or documents, from regulatory officials of other state, federal and
32 international financial regulatory agencies, including members of any supervisory college as set
33 forth in the § 27-35-5.5, and from the NAIC, and shall maintain as confidential or privileged any
34 documents, materials or information received with notice or the understanding that it is

1 confidential or privileged under the laws of the jurisdiction that is the source of the document,
2 material or information.

3 (d) The sharing of information and documents by the commissioner pursuant to this
4 chapter shall not constitute a delegation of regulatory authority or rulemaking, and the
5 commissioner is solely responsible for the administration, execution and enforcement of the
6 provisions of this chapter.

7 (e) No waiver of any applicable privilege or claim of confidentiality in the documents,
8 proprietary and trade-secret materials or other CGAD-related information shall occur as a result
9 of disclosure of such CGAD-related information or documents to the commissioner under this
10 section or as a result of sharing as authorized in this chapter.

11 **27-1.2-7. NAIC and third-party consultants. --** (a) The commissioner may retain, at the
12 insurer's expense, third-party consultants, including attorneys, actuaries, accountants and other
13 experts not otherwise a part of the commissioner's staff as may be reasonably necessary to assist
14 the commissioner in reviewing the CGAD and related information or the insurer's compliance
15 with this chapter.

16 (b) Any persons retained under subsection (a) of this section shall be under the direction
17 and control of the commissioner and shall act in a purely advisory capacity.

18 (c) The NAIC and third-party consultants shall be subject to the same confidentiality
19 standards and requirements as the commissioner.

20 (d) As part of the retention process, a third-party consultant shall verify to the
21 commissioner, with notice to the insurer, that it is free of a conflict of interest and that it has
22 internal procedures in place to monitor compliance with a conflict and to comply with the
23 confidentiality standards and requirements of this chapter.

24 (e) A written agreement with the NAIC and/or a third-party consultant governing sharing
25 and use of information provided pursuant to this chapter shall contain the following provisions
26 and expressly require the written consent of the insurer prior to making public information
27 provided under this chapter:

28 (1) Specific procedures and protocols for maintaining the confidentiality and security of
29 CGAD-related information shared with the NAIC or a third-party consultant pursuant to this
30 chapter;

31 (2) Procedures and protocols for sharing by the NAIC only with other state regulators
32 from states in which the insurance group has domiciled insurers. The agreement shall provide that
33 the recipient agrees in writing to maintain the confidentiality and privileged status of the CGAD-
34 related documents, materials or other information and has verified in writing the legal authority to

1 maintain confidentiality;

2 (3) A provision specifying that ownership of the CGAD-related information shared with
3 the NAIC or a third-party consultant remains with the department of business regulation and the
4 NAIC's or third-party consultant's use of the information is subject to the direction of the
5 commissioner;

6 (4) A provision that prohibits the NAIC or a third-party consultant from storing the
7 information shared pursuant to this chapter in a permanent database after the underlying analysis
8 is completed;

9 (5) A provision requiring the NAIC or third-party consultant to provide prompt notice to
10 the commissioner and to the insurer or insurance group regarding any subpoena, request for
11 disclosure, or request for production of the insurer's CGAD-related information; and

12 (6) A requirement that the NAIC or a third-party consultant consent to intervention by an
13 insurer in any judicial or administrative action in which the NAIC or a third-party consultant may
14 be required to disclose confidential information about the insurer shared with the NAIC or a
15 third-party consultant pursuant to this chapter.

16 **27-1.2-8. Sanctions.** -- Any insurer failing, without just cause, to timely file the CGAD
17 as required in this chapter shall be required, after notice and hearing, to pay a penalty of two
18 hundred and fifty dollars (\$250) for each day's delay, to be recovered by the commissioner and
19 the penalty so recovered shall be paid into the general fund of this state. The maximum penalty
20 under this section is two hundred and fifty thousand dollars (\$250,000). The commissioner may
21 reduce the penalty if the insurer demonstrates to the commissioner that the imposition of the
22 penalty would constitute a financial hardship to the insurer.

23 **27-1.2-9. Severability clause.** -- If any provision of this chapter, other than § 27-1.2-6, or
24 the application thereof to any person or circumstance, is held invalid, such determination shall not
25 affect the provisions or applications of this chapter which can be given effect without the invalid
26 provision or application, and to that end the provisions of this chapter, with the exception of § 27-
27 1.2-6 are severable.

28 **27-1.2-10. Effective date.** -- The requirements of this chapter shall become effective on
29 January 1, 2016. The first filing of the CGAD shall be in 2016.

30 SECTION 2. Sections 5-3.1-3, 5-3.1-7 and 5-3.1-9 of the General Laws in Chapter 5-3.1
31 entitled "Public Accountancy" are hereby amended to read as follows:

32 **5-3.1-3. Definitions.** -- As used in this chapter, unless the context requires otherwise, the
33 following terms are construed as follows:

34 (1) "Attest" means providing the following financial statement services:

- 1 (i) Any audit or other engagement to be performed in accordance with the Statements on
2 Auditing Standards (SAS) ~~as adopted by the American Institute of Certified Public Accountants;~~
- 3 (ii) Any review of a financial statement to be performed in accordance with the Statement
4 on Standards for Accounting and Review Services (SSARS) ~~as adopted by the American Institute~~
5 ~~of Certified Public Accountants;~~
- 6 (iii) Any examination of prospective financial information to be performed in accordance
7 with the Statements on Standards for Attestation Engagements (SSAE) ~~as adopted by the~~
8 ~~American Institute of Certified Public Accountants;~~
- 9 (iv) ~~Any services considered attest by the American Institute of Certified Public~~
10 ~~Accountants~~ Any engagement to be performed in accordance with the standards of the public
11 company accounting oversight board;
- 12 (v) ~~Any services that will provide assurance on financial information and will be~~
13 ~~performed in accordance with appropriate professional standards~~ Any examination, review, or
14 agreed upon procedures engagement to be performed in accordance with the SSAE, other than an
15 examination described in subsection (iii); and
- 16 (vi) The statements on standards specified in this definition shall be adopted by reference
17 by the board pursuant to rulemaking and shall be those standards developed ~~by the American~~
18 ~~Institute of Certified Public Accountants~~ for general application by recognized national
19 accountancy organizations, such as the American Institute of Certified Public Accountants, and
20 the Public Company Accounting Oversight Board.
- 21 (2) "Authority" means an authority to practice as a public accountant in this state granted
22 by the public accountants advisory commission under former § 5-3-6, (P.L. 1962, chapter 228,
23 Section 1, as amended by P.L. 1970, chapter 272, Section 1).
- 24 (3) "Board" means the board of accountancy, a public authority created by § 5-3.1-4.
- 25 (4) "Certificate" means a certificate as certified public accountant issued under this
26 chapter or corresponding provisions of prior law, or a corresponding certificate as certified public
27 accountant issued after examination under the law of any other state.
- 28 (5) "Certified public accountant" or "CPA" means a person holding a certificate issued
29 under this chapter or corresponding provisions of prior law or under the accountancy act or
30 similar law of any other state.
- 31 (6) "Compilation" means providing a service to be performed in accordance with the
32 Statement on Standards for Accounting and Review Services (SSARS) as adopted by the
33 American Institute of Certified Public Accountants that is presenting in the form of financial
34 statements, information that is the representation of management without undertaking to express

1 any assurance on the statements.

2 (7) "Entity" includes a general partnership, limited liability company, limited liability
3 partnership, a corporation, a sole proprietor, a trust and joint venture.

4 (8) "Good moral character" for purposes of this section, means lack of a history of
5 dishonest or felonious acts.

6 (9) "Licensee" means the holder of a certificate, authority or permit issued under this
7 chapter or under the prior laws of this state.

8 (10) "Majority" refers to more than fifty percent (50%) ownership in terms of financial
9 interests and voting rights.

10 (11) "Peer review" means a study, appraisal, or review of one or more aspects of the
11 professional work of a practice unit engaged in the practice of public accountancy in this state, by
12 a licensee or licensees who are not affiliated with the practice unit being reviewed.

13 (12) "Permit" means a permit to practice public accountancy issued under § 5-3.1-7, 5-
14 3.1-8, or 5-3.1-9, or under corresponding provisions of prior law, or under corresponding
15 provisions of the law of any other state.

16 (13) "Practice of (or practicing) public accounting or accountancy" means the
17 performance of or the offering to perform, in an independent posture, for a client or potential
18 client, one or more kinds of services involving the use of accounting or auditing skills, in
19 connection with the issuance of reports on financial statements.

20 (14) "Practice unit" means a sole proprietorship, corporation, partnership or other entity
21 engaged in the practice of public accounting in this state. For the purpose of this chapter, the
22 office of the Auditor General is considered a practice unit.

23 (15) "Principal residence" means the state in which a person has the right to register to
24 vote for, or the right to vote in, general elections and in which he or she qualifies to file a resident
25 state income tax return.

26 (16) "Public accountant" or "PA" means a person holding an authority as a public
27 accountant issued under the prior laws of this state.

28 (17) "Report" means an opinion, report, or other form of language that states or implies
29 assurance as to the reliability of financial statements and that also includes or is accompanied by a
30 statement or implication that the person or practice unit issuing the financial statements has
31 special knowledge or competence in accounting or auditing. A statement or implication of special
32 knowledge or competence may arise from use by the issuer of the report of names or titles
33 indicating that the issuer is an accountant or auditor, or from the language of the report itself. The
34 term "report" includes any form of language which disclaims an opinion when that language is

1 conventionally understood to imply any positive assurance as to the reliability of the financial
2 statements referred to and/or any special competence on the part of the person or practice unit
3 issuing that language; and it also includes any other form of language that is conventionally
4 understood to imply that assurance and/or special knowledge or competence.

5 (18) "State" means the states of the United States, the District of Columbia, Puerto Rico,
6 Guam, and the U.S. Virgin Islands. The term "this state" means the state of Rhode Island.

7 (19) "Substantial equivalency" means a determination by the board of accountancy that
8 the education, examination and experience requirements contained in the statutes and
9 administrative rules of another state or jurisdiction are comparable to or exceed the education,
10 examination and experience requirements included in this chapter or that an individual CPA's
11 education, examination and experience qualifications are comparable to or exceed the education,
12 examination and experience requirements contained in this chapter. In ascertaining substantial
13 equivalency as used in this chapter the board shall take into account the qualifications without
14 regard to the sequence in which experience, education or examination requirements were attained.

15 **5-3.1-7. Permits for public accountants and certified public accountants.** -- (a)

16 Annual permits to engage in the practice of public accounting in this state shall be issued by the
17 board, upon application for the permit and payment of the required fee, to certified public
18 accountants qualified under § 5-3.1-5 or eligible under the substantial equivalency standard set
19 out in subsection (g) of this section, and to public accountants qualified under § 5-3.1-6. Effective
20 January 1, 2009, all permits issued by the board shall be valid for a period of three (3) years and
21 shall expire upon the last day of June of the year in which the permit is scheduled to expire. To
22 transition existing licensees to a three (3) year licensing cycle, the board shall have the authority
23 and discretion in 2008 to issue permits under this section that are valid for one, two (2), or three
24 (3) years. All such permits issued during 2008 shall expire upon the last day of June of the year in
25 which the permit is scheduled to expire. The board's authority to issue permits valid for one or
26 two (2) years shall cease as of December 31, 2008.

27 (b) A certified public accountant who holds a permit issued by another state and who
28 desires to practice in this state shall apply for a permit in this state if that person does not qualify
29 for reciprocity under the substantial equivalency standard set out in subsection (g) of this section.
30 Upon the date of filing the completed application with the board, the applicant is deemed
31 qualified to practice and may practice public accounting in this state pending board review of the
32 application; provided, that the applicant meets all other applicable requirements under this
33 chapter. Submission of the application constitutes the appointment of the secretary of state as an
34 agent for the applicant for service of process in any action or proceeding arising out of any

1 transaction or operation connected with or incidental to the practice of public accounting in this
2 state by the applicant.

3 (c) Applications for renewal of a permit under this section shall be submitted to the board
4 by February 15 of the year in which the permit is scheduled to expire and shall be accompanied
5 by evidence that the applicant has satisfied the continuing professional education requirements
6 promulgated by board regulation. That evidence shall be in a form that the board requires. Failure
7 to furnish that evidence constitutes grounds for refusal to renew the permit unless the board in its
8 discretion determines that the failure was due to reasonable cause or excusable neglect.

9 (d) Applications for renewal of a permit under this section shall also identify any practice
10 unit with which the applicant is affiliated. In the event the practice unit fails to comply with § 5-
11 3.1-9 or 5-3.1-10, the board may refuse to renew the applicant's individual permit if the board
12 determines that the applicant was personally and substantially responsible for the failure of the
13 practice unit to meet the requirements of §§ 5-3.1-9 and 5-3.1-10.

14 (e) All applicants for a permit under this section shall list in the application all other
15 states in which the applicant has applied for or holds a permit to practice. Each applicant for or
16 holder of a permit issued under this section or any individual who has entered the state under the
17 provisions of substantial equivalency shall, within thirty (30) days of the occurrence of the event,
18 notify the board in writing:

19 (1) Of the issuance, denial, revocation, or suspension of any certificate, license, degree,
20 or permit by any other state; or

21 (2) Of the commencement of any disciplinary or enforcement action against the
22 applicant, holder or individual by any other state.

23 (f) Fees for the issuance and renewal of permits under this section shall be established
24 from time to time by the board. In no case shall the three (3) year renewal fee be less than three
25 hundred and seventy-five dollars (\$375). The required fee shall be paid by the applicant at the
26 time the application is filed with the board.

27 (g) *Substantial equivalency.*

28 (1) An individual ~~whose principal place of business or principal residence is not in this~~
29 ~~state~~ having a valid certificate or license as a certified public accountant from any state whose
30 licensure requirements are determined to be substantially equivalent with the conditions of this
31 section shall have all the privileges of certificate holders and licensees of this state without the
32 need to obtain a certificate or permit from this state under this section as long as the conditions of
33 this section are met. The individual must have one year or more of experience. This experience
34 shall include providing any type of service or advice involving the use of accounting, attest,

1 management advisory, financial advisory, tax or consulting skills all of which was verified by a
2 licensee, meeting requirements prescribed by the board by rule. This experience is acceptable if it
3 was gained through employment in government, industry, academia or public practice.
4 Notwithstanding any other provision of law, an individual who offers or renders professional
5 services, whether in person, by mail, telephone or electronic means, under this section shall be
6 granted practice privileges in this state and no notice or other submission shall be provided by any
7 such individual. Such an individual shall be subject to the requirements in subdivision (g)(3). If
8 this individual is responsible for supervising attest services and signs or authorizes another
9 licensee to sign the accountant's report on the financial statements on behalf of the firm, this
10 individual shall meet the experience requirements set out in the professional standards for such
11 services. If this individual is responsible for signing or authorizing another licensee to sign the
12 accountant's report on the financial statements on behalf of the firm, this individual shall meet the
13 experience requirements set out in the professional standards for such services. The board may
14 use the NASBA National Qualification Appraisal Service to determine which other states have
15 substantial equivalence with this chapter.

16 (2) An individual ~~whose principal place of business is not in this state and~~ who holds a
17 valid certificate or license as a certified public accountant from any state which the NASBA
18 National Qualification Appraisal Service has not verified to be in substantial equivalence with the
19 CPA licensure requirements if the AICPA/NASBA Uniform Accountancy Act shall be presumed
20 to have qualifications substantially equivalent to this state's requirements and shall have all the
21 privileges of certificate holders and licenses of this state without the need to obtain a certificate or
22 permit under this section if such individual obtains from the NASBA National Qualification
23 Appraisal Service verification that such individual's CPA qualifications are substantially
24 equivalent to the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act.
25 Any individual who passed the Uniform CPA Examination and holds a valid license issued by
26 any other state prior to January 1, 2012 may be exempt from the education requirement in
27 subdivision 5-3.1-5(a)(3) for purposes of this section.

28 (3) Any individual licensee of another state exercising the privilege afforded under this
29 section and the CPA firm which employs that licensee hereby simultaneously consents, as a
30 condition of the granting of this privilege:

31 (i) To the personal and subject matter jurisdiction and disciplinary authority of the board;

32 (ii) To comply with this chapter and the board's rules;

33 (iii) That in the event the certificate or license from the state of the individual's principal
34 place of business is no longer valid, the individual will cease offering or rendering professional

1 services in this state individually and on behalf of a CPA firm; and

2 (iv) To the appointment of the board which issued their license as their agent upon whom
3 process may be served in any action or proceeding by this board against the licensee.

4 (4) A licensee of this state offering or rendering services or using their CPA title in
5 another state shall be subject to disciplinary action in this state for an act committed in another
6 state for which the licensee would be subject to discipline for an act committed in the other state.

7 **5-3.1-9. Permits for practice units.** -- (a) Permits to engage in the practice of public
8 accounting in this state as a practice unit shall be issued by the board, upon application therefore
9 and payment of the required fee, to an entity that demonstrates its qualifications in accordance
10 with this chapter or to certified public accounting firms originally licensed in another state that
11 establish an office in this state. A practice unit must hold a permit issued under this section in
12 order to provide attest and compilation services as defined or to use the title "CPAs" or "CPA
13 firm." An applicant entity for initial issuance or renewal of a permit to practice under this section
14 shall be required to register each office of the firm within this state with the board and to show
15 that all attest and compilation services as defined in this chapter rendered in this state are under
16 the charge of a person holding a valid certificate issued under this chapter, or the corresponding
17 provision of prior law or some other state.

18 (b) An entity shall satisfy the following requirements:

19 (1) For [corporations](#), general partnerships, joint ventures, limited liability partnerships
20 and limited liability companies:

21 (i) The principal purpose and business of the partnership must be to furnish public
22 accounting services to the public not inconsistent with this chapter and the rules and regulations
23 of the board;

24 (ii) A majority of the ownership of the entity, in terms of financial interests and voting
25 rights of all partners, shareholders or members, belongs to holders of a certificate who shall hold
26 a certificate and a permit from some state, and such partners, shareholders or members, whose
27 principal place of business is in this state and who perform professional services in this state, hold
28 a valid permit issued under this chapter or are public accountants registered under § 5-3.1-7.
29 Although firms may include non-licensee owners, the firm and its ownership and all parties must
30 comply with rules promulgated by the board. For firms of public accountants, a majority of the
31 ownership of the firm, in terms of financial interests and voting rights, must belong to holders of
32 permits under § 5-3.1-7, and provided, that any such entity as defined by this subsection may
33 include non-licensee owners provided that:

34 (A) The entity designates a licensee of this state, who is responsible for the proper

1 registration of the firm and identifies that individual to the board;

2 (B) All non-licensee owners are active individual participants in the entity;

3 (C) The entity complies with such other requirements as the board may impose by rule;

4 (D) Any individual licensee who is responsible for supervising attest and compilation
5 services and signs or authorizes another licensee to sign the accountant's report on the financial
6 statements on behalf of the firm, shall meet the experience requirements as set out in professional
7 standards for such services;

8 (E) Any individual licensee who signs or authorizes another licensee to sign the
9 accountants' report on the financial statements on behalf of the firm shall meet the experience
10 requirement as set out in professional standards for such services.

11 (iii) At least one partner, shareholder or member must be a certified public accountant or
12 a public accountant holding a certificate or authority under this chapter and a permit to practice in
13 this state under § 5-3.1-7;

14 (iv) The address of every office of the entity located in this state must be listed in the
15 application for the permit.

16 (2) For a sole proprietorship:

17 (i) The principal purpose and business of the sole proprietorship must be to furnish public
18 accounting services to the public not inconsistent with this chapter and the rules and regulations
19 of the board;

20 (ii) The sole proprietor must be a certified public accountant or a public accountant
21 holding a certificate or authority under this chapter and a permit to practice in this state under § 5-
22 3.1-7;

23 (iii) The address of every office of the sole proprietorship located in this state must be
24 listed in the application for the permit.

25 (iv) Any individual licensee who is responsible for supervising attest and compilation
26 services and signs or authorizes another licensee to sign the accountant's report on the financial
27 statements on behalf of the sole proprietor shall meet the experience requirements as set out in
28 professional standards for such services; and

29 (v) Any individual licensee who signs or authorizes another licensee to sign the
30 accountants' report on the financial statements on behalf of the firm shall meet the experience
31 requirement as set out in professional standards for such services.

32 (c) Application for a permit under this section must be made upon the affidavit of the
33 partner, shareholder, member or sole proprietor who holds a permit to practice in this state under
34 § 5-3.1-7 as a certified public accountant or a public accountant. All applications for a permit

1 under this section must include, in addition to any other information required by this chapter or
2 by rule or regulation of the board to be stated in the application, a list of all other states in which
3 the entity has applied for or holds a permit. Upon receipt of the application, the board shall
4 determine whether the entity is eligible for a permit. In the event the board determines the entity
5 is ineligible for a permit under this section, that determination shall be stated in writing and
6 delivered to the applicant at the address that is stated in the application.

7 (d) All applicants for or holders of a permit under this section shall notify the board in
8 writing within thirty (30) days of the occurrence of the event:

9 (1) Of any change in the identities of the partners, officers, directors, or shareholders who
10 are personally engaged in this state in the practice of public accounting;

11 (2) Of any change in the number or location of offices within this state required to be
12 listed in the application pursuant to this section;

13 (3) Of any change in the identities of the persons supervising the offices;

14 (4) Of any issuance, denial, revocation, or suspension of a permit by any other state. The
15 board may prescribe fees, which are to be paid by the applicants or holders upon the notification;
16 and

17 (5) Of a reduction below a majority of the ownership in the entity in terms of financial
18 interests and voting rights.

19 (e) All permits issued by the board under this section subsequent to January 1, 2009, shall
20 be valid for a period of three (3) years and shall expire on the last day of June of the year in which
21 the permit is scheduled to expire unless the permit is renewed in accordance with the provisions
22 of this section. To transition existing licensees to a three (3) year licensing cycle, the board shall
23 have the authority and discretion in 2008 to issue permits under this section that are valid for one,
24 two (2), or three (3) years. All such permits issued during 2008 shall expire upon the last day of
25 June of the year in which the permit is scheduled to expire. The board's authority to issue permits
26 valid for one or two (2) years shall cease as of December 31, 2008.

27 Effective January 1, 2009, permits issued pursuant to this section may be renewed for a
28 period of three (3) years, and the renewed permit shall expire on the last day of June of the year in
29 which the renewed permit is scheduled to expire, unless the renewed permit is again renewed by
30 its holder. All applications for renewal of permits under this section shall be submitted to the
31 board by February 15 of the year in which a permit or renewed permit is scheduled to expire. All
32 applicants for permit renewal shall satisfy the quality review requirements prescribed in § 5-3.1-
33 10.

34 (f) Fees to be paid upon application for initial issuance or renewal of a permit under this

1 section shall be established from time to time by the board. Fees shall be paid at the time the
2 application is filed with the board.

3 (g) An annual permit to engage in the practice of public accounting in this state shall be
4 issued by the board, upon application for it and payment of the required fee, to the office of the
5 auditor general provided the office is in compliance with § 5-3.1-10.

6 (h) An entity which falls out of compliance with the provisions of this section due to
7 changes in firm ownership or personnel, after receiving or renewing a permit, shall take
8 corrective action to bring the firm into compliance as quickly as possible. The board may grant a
9 reasonable period of time for a firm to take such corrective action. Failure to bring the firm into
10 compliance within a reasonable period as defined by the board will result in the suspension or
11 revocation of the permit.

12 SECTION 3. Section 1 shall take effect on January 1, 2016. All other sections shall take
13 effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO INSURANCE-CORPORATE GOVERNANCE ANNUAL DISCLOSURE

1 This act would require insurance companies to submit to the department of business
2 regulation a corporate governance annual disclosure report that shows how the insurer is
3 governed and what are its governance structure and policies. The act also removes several
4 references to the American Institute of Certified Public Accountants in the chapter covering
5 public accountants.

6 Section 1 would take effect on January 1, 2016. All other sections would take effect upon
7 passage.

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