

**EXHIBIT 2**  
**CHANGES AND PROPOSALS FROM STATE BOARDS OF ACCOUNTANCY**

*Source: Adapted from responses received by the authors from either the executive director of the state board or a member of the board itself.*

**Alabama.** The board has not made any changes in regards to regulating small to medium-sized nonregistered public accounting firms. As of this writing, we have no proposed actions under consideration in regards to regulating small to medium-sized nonregistered public accounting firms.

**Alaska.** The board has not yet made changes to its statutes or regulations as a result of the Sarbanes-Oxley Act. We are closely monitoring actions by the Public Company Accounting Oversight Board (PCAOB) and the AICPA. We are very concerned that there may be a trickle-down effect that could negatively impact CPA firms in Alaska, most of which are nonregistered. At this point, we have no proposed changes in statutes or regulations.

**Arizona.** The board is responsible only for CPA title requirements. The board has taken a "wait and see" approach.

**Arkansas.** We have made no changes to the accountancy law regarding accounting firms in Arkansas this year. Although we are keeping abreast of the issues, we have no proposed rule or regulation changes at this time.

**California.** California Business and Professions Code section 5051 defines the meaning of practicing public accountancy in California. Any firm that practices public accountancy in California must be licensed by the California Board of Accountancy. There are no proposed changes attributable to the Sarbanes-Oxley Act.

**Colorado.** No. At this time the board is not addressing the issue of developing rules/standards with respect to small and mid-sized nonregistered accounting firms.

**District of Columbia.** The board has made no changes as a result of the Sarbanes-Oxley Act.

**Florida.** The board has taken a deliberate "wait-and-see" approach before deciding if Florida should adopt any Sarbanes-Oxley provisions, or some variation, that would be applied to nonpublic companies. At this time, there has been no action or proposed action taken by the board.

**Georgia.** At present the board anticipates no rule changes that affect firms that do not handle public clients. Changes to the Records Retention Rule are under consideration.

**Guam.** We are in the process of completely revising our laws and rules to be consistent with the UAA. It will be some time before we know exactly what changes we may make.

**Hawaii.** The board has made no changes to its regulation of small and medium-sized nonregistered public accounting firms, though the board is currently discussing this issue. The board discussed your inquiry at its meeting of August 4, 2003. The board is currently discussing this issue; no substantive decisions have been made. The board noted that Sarbanes-Oxley has such a potentially far-reaching impact that it needs to address all aspects of the issues before proposing any action.

**Idaho.** No changes are being considered at this time.

**Illinois.** Currently no amendments have been made to the Illinois Public Accounting Act regarding the regulation of public accounting firms.

**Indiana.** We have had very preliminary discussions regarding adopting rules relative to mandatory peer reviews; however, no specific proposal has been brought forth.

**Iowa.** The board is working with and through NASBA.

**Kansas.** No changes are being considered at this time.

**Kentucky.** No changes have been made regarding firms, but one action being considered is to require all CPAs to obtain a specific number of hours in ethics as part of their continuing education requirement.

**Louisiana.** No changes have been made, although we anticipate increased or more-effective peer review requirements upon adoption of a current exposure draft that will impact small and medium-sized firms. Proposed changes include increased requirements before licensure of firms providing attest services.

**Maine.** The board has made no changes in its regulation of small and medium-sized nonregistered public accounting firms, nor is it considering any actions as a result of Sarbanes-Oxley.

**Maryland.** Maryland has made no changes to its laws or regulations as yet.

**Massachusetts.** The board has taken no action yet, and continues to evaluate the current events at SEC and their implications on nonpublic companies. The board will review developments in other states regarding new regulations.

**Michigan.** The board has taken no action regarding Sarbanes-Oxley at this time. Board members are still studying federal legislation and are looking to NASBA for guidance. We assume we will eventually be amending our administrative rules and possibly our statute; however, it will likely be at least another six months before any action is taken.

**Minnesota.** The state has started formation of an oversight board.

**Mississippi.** The board has taken no action at this time.

**Missouri.** Missouri has recently promulgated a new record retention rule, but it was considered long before Sarbanes-Oxley. We have no changes or proposed changes attributable to Sarbanes-Oxley. We will have discussions about the topic at our upcoming strategic planning meeting.

**Montana.** At this time, the board has not considered any regulation as a result of Sarbanes-Oxley.

**Nebraska.** The board is going to wait and see how the federal legislation pans out before making any changes.

**Nevada.** No changes have been made at this time.

**New Jersey.** The board has a regulation which requires all practice units that issue audits, reviews, or compilations to undergo a peer or quality review program once

every three years. The board conducts its own quality review

program for firms that are not participating in the AICPA's peer review program. The board is currently considering expanding this program either to include a workpaper review for audits and reviews or to require all firms that issue audits or reviews to undergo an on-site peer review.

**New Mexico.** No changes have been made or have been proposed at this time.

**New York.** There have been no changes that would impact nonregistered small and medium-sized public accounting firms. With respect to the Sarbanes-Oxley Act, recently proposed amendments to the Rules of the Board of Regents focused on auditors of publicly traded companies only. Two recently proposed amendments to the Rules of the Board of Regents would impact all registered firms in New York State. The first addresses commissions earned on nonattest engagements. The second requires licensees to report specific reportable events to the State Education Department for consideration by the department and the state board. These amendments were originally scheduled for discussion by the Board of Regents in April 2003, but were held pending additional input from the state board. Revised amendments will be published in the state register and will be discussed by the Board of Regents this fall.

**North Carolina.** No changes have been made at this time.

**North Dakota.** We have not made or considered any statute or regulation changes in reaction to Sarbanes-Oxley.

**Ohio.** No changes have been made at this time.

**Oklahoma.** No changes have been made at this time.

**Oregon.** The board has taken no action yet regarding Sarbanes-Oxley.

**Pennsylvania.** No changes are being considered at this time. Any changes will be by the state legislature.

**Rhode Island.** The board has not made any changes with respect to how it regulates small and medium-sized accounting firms. Rhode Island's accountancy statute adopts the AICPA Code of Professional Conduct as its Code of Ethics. The AICPA has strengthened its Code of Professional Conduct in the areas dealing with member independence; in all likelihood the AICPA will continue to revise its interpretations. All accounting firms registered in Rhode Island will have to satisfy these stricter standards or risk violating the accountancy law. At present the board believes that the current law is flexible enough to enable it to discharge its regulatory duties. The board will be revisiting its CPE requirements to determine, among other things, whether an ethics requirement should be part of its CPE requirement.

**South Carolina.** We are rewriting our practice act and we are using language that requires licensees to abide by any applicable standards. If a small firm is not doing any SEC work, the same standards would not apply. We will address other issues when the regulations are written.

**South Dakota.** South Dakota is recommending that the current standards be referenced in regulations. We do not anticipate creating new standards in addition to those already required by GAAP, PCAOB, SEC, and AICPA. South Dakota requires a mandatory peer review of firms performing attest functions. New firms are subject to a peer review after their first year in operation, and every three years after that. The board carefully reviews each peer review and takes corrective action when required. Attempting to apply Sarbanes-Oxley to small and medium-sized firms in South Dakota would impede their ability to function and subsequently diminish the availability of financial services and advisors to the public.

**Tennessee.** We regulate all accounting firms that practice in Tennessee. We have added five-year rules covering record retention for all accounting services. Firms practicing before the SEC, GAO, PCAOB must follow those standards if applicable to the engagement, and no other cascading of rules is expected.

**Texas.** The board shall report to the governor, the lieutenant governor, and the speaker of the house of representatives, not later than December 31, 2005, regarding: (1) the requirements of the Sarbanes-Oxley Act, including any restrictions on public interest entities, and any legislation or other action needed to conform state law to its requirements; (2) the GAO study on audit firm rotation and any legislation or other action needed to conform state law to its findings; and (3) the rules adopted by the board that are intended to comply with (1) and (2), as well as the board's actions in implementing and enforcing those rules.

**Utah.** No changes to our statutes and rules have been made or proposed.

**Vermont.** No changes have been made.

**Virginia.** The board is proposing changes to its regulations to comply with Sarbanes-Oxley; however, there is no differentiation between large, medium-sized, and small firms.

**Washington.** At its July 25, 2003, meeting the board accepted the committee's recommendation and began rulemaking to revise the independence rule based on the draft presented in the committee's report.

**West Virginia.** Effective September 15, 2002, the board requires all entities other than sole proprietors to register for firm permits as well as authorizations to provide attest and compilation services.

**Wisconsin.** No official or proposed action has taken place; we are still in the process of studying the issue.

**Wyoming.** The board has made no changes in the regulation of nonregistered accounting firms in response to Sarbanes-Oxley. We will most likely amend regulations to deal with records retention related to workpapers. These regulations will apply to all public accounting firms and are anticipated in 2005.