

RULE 7 OWNERSHIP OF FIRMS

7.1 DEFINITIONS

- (a) For purposes of these rules, "actively participate" means the providing of personal services in the business entity licensed in Arkansas to practice public accounting, in the nature of management, performance of services for clients, or similar activities. Individuals and entities whose primary source of income from the business entity is provided as a result of passive investment will not be considered as actively participating in the business entity.
- (b) For purposes of these rules, an "owner" is defined as a person who actively participates in a business entity licensed in Arkansas to practice public accounting, and who (1) has an interest in profits and losses of such business entity, or (2) owns all, or any portion, of the equity capital of such business entity, or (3) has a vote with respect to matters of such business entity.
- (c) For purposes of these rules, "profits and losses" are defined as the net taxable income or loss, determined prior to payment of any form of compensation to owners, of a business entity licensed in Arkansas to practice public accounting.
- (d) For purposes of these rules, "equity capital" is defined as (a) capital stock, capital accounts, capital contributions, or undistributed earnings of a business entity licensed in Arkansas to practice public accounting; and (b) loans and advances to a business entity licensed in Arkansas to practice public accounting, made or held by its owners. "Equity capital" does not include an interest in bonuses, profit sharing plans or defined benefit plans or loans to a business entity licensed in Arkansas to practice public accounting from banks, financial institutions or other third parties that do not actively participate in such business entity.
- (e) For purposes of these rules, a "business entity" is defined as a proprietorship, partnership, corporation, limited liability company or any other permissible form of practice which is licensed in Arkansas to practice public accounting.
- (f) (1) "Good standing" as used in A.C.A. §§ 17-12-401, 17-12-402, 17-12- 603(d), and Rule 7.4 (a) is defined as a CPA or PA who holds an active license for the current year issued by the applicable Board.
(2) "Good standing" as used in § 17-12-504(a) and (b) means a CPA, public accountant, or a firm whose license, registration, or inactive license has not lapsed pursuant to Ark. Code Ann. § 17-12-504(f)(2).

7.2 CORPORATIONS

Any corporation granted a license under the Act shall be subject to the Rules of Professional Conduct. Any shareholder who ceases to be eligible to be a shareholder shall be required to dispose of all of his or her shares within a reasonable period to a person qualified to be a shareholder Rule or to the corporation.

7.3 PARTNERSHIPS, CORPORATIONS, LIMITED LIABILITY COMPANIES, SOLE PROPRIETORSHIPS AND OTHER PERMISSIBLE FORMS OF PRACTICE; GENERAL REQUIREMENTS; OWNERSHIP

- (a) A person who is not a certified public accountant or public accountant in this or some other state or jurisdiction but who actively participates within this state in the business conducted in Arkansas by a business entity licensed in Arkansas to practice public

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accounting may be an owner, director, officer, limited liability company member, or manager in any such business entity, under the following conditions:

- (1) Such person shall not hold himself or herself out as a certified public accountant or public accountant.
 - (2) The name of such person shall be provided to the Board by a business entity in connection with the granting or renewal of a license in Arkansas to such business entity.
 - (3) Such person shall not have ultimate responsibility for the performance of audits, reviews or compilations of financial statements or other forms of attestation related to financial information.
- (b) **Limitations; Equity Ownership.** Persons who are not certified public accountants or public accountants in this or any other state or jurisdiction but who are owners of a business entity licensed in Arkansas to practice public accounting, shall neither (a) hold, in the aggregate, more than a minority interest of such business entity's equity capital or voting rights, nor (b) receive, in the aggregate, more than a minority interest of such business entity's profits or losses.
- (c) **Sole Proprietorships.** A certified public accountant or public accountant operating as a sole proprietorship and engaged in Arkansas in the practice of public accounting is considered a firm.
- (d) **Other forms of practice.** These rules shall be applied to individuals and to any business entity licensed in Arkansas to practice public accounting in a manner consistent with carrying out the intent of these rules.
- (e) **Eligibility; Disqualification; Owners.** With respect to owners who are not licensed in this state or any other state or jurisdiction as certified public accountants or public accountants, if at any time the Board determines that any such owner no longer is eligible to be an owner by virtue of not being in compliance with the criteria set forth in the Public Accountancy Act and rules, such owner and the business entity in which ownership exists shall be notified that if a Board hearing is not requested within thirty (30) days of the date of mailing notification of such determination, an order will then be entered that such owner must divest himself or herself of ownership in the business entity within sixty (60) days of entry of the order.
- (f) **Corporations; Other Requirements.** The principal executive officer of a corporation licensed in Arkansas to practice public accounting shall be a shareholder and a director who is a licensed certified public accountant or public accountant. Directors and officers who are not licensees shall not exercise any authority whatsoever over professional matters relating to the practice of public accountancy.

7.4 APPLICATION PROCEDURES; FORMS

- (a) Each applicant for registration as any type of licensed business entity shall register with the Board of Public Accountancy prior to performing public accounting work in the state of Arkansas. Except as described below, such registration form must include an affidavit signed by a general partner, shareholder, or member of such business entity who is a certified public accountant or public accountant of Arkansas in good standing, attesting to the accuracy of the information in the application materials. In the case of an entity practicing under substantially equivalency, such registration form must include an affidavit signed by a general partner, shareholder, or member of such business entity who holds a current valid license in good standing as a certified public accountant in Arkansas or some other state or jurisdiction of the United States attesting to the accuracy of the information in the application materials.

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- (b) After the Board has accepted the initial registration application and has issued a license to practice, the registered business entity may practice in the state of Arkansas under the title which appears on the license to practice as the name of the business entity.
- (c) Arkansas registered business entities shall renew their registration on an annual basis, on forms provided by the Board. Failure or refusal to provide complete and accurate responses to all questions on the registration renewal forms by the deadline noted on such forms may be grounds for refusal to renew such registration.
- (d) Arkansas registered business entities shall include on their initial registration with the Board, and subsequent renewal of such registration, a complete listing of the names and the state of residency of all owners and the percentage of ownership and voting rights of each owner.
- (e) In the case of firms with multiple offices, the licensee shall identify on its original and each renewal application each office to be registered, as prescribed on a form approved by the Board.

7.5 NON-RESIDENT PUBLIC ACCOUNTANTS

A non-resident Public Accountant and an Arkansas Public Accountant or Certified Public Accountant may form a partnership or corporation for the practice of public accountancy, which shall be registered with the Board, provided that the non-resident Public Accountant holds a valid and unrevoked license in a jurisdiction having a regulatory law and, further provided that the non-resident Public Accountant shall not actively practice public accounting in Arkansas as an individual or as a partner or shareholder of the firm.

The Board will not register such a partnership or corporation if the non-resident Public Accountant lives in a state which does not have a regulatory accountancy law.

7.6 PRACTICE PRIVILEGES FOR OUT OF STATE PUBLIC ACCOUNTING FIRMS

Non resident firms: Corporations, Limited Liability Companies, Partnerships, Sole Proprietorships, and other permissible forms of practice that are practicing in Arkansas under practice privileges are subject to the following:

- (a) Ownership: A person who does not hold a current valid license as a certified public accountant in Arkansas or some other state or jurisdiction of the United States, but who actively participates within this state with a firm exercising practice privileges in Arkansas is subject to the following conditions.
 - (1) Such person shall not hold himself or herself out as a certified public accountant or public accountant.
 - (2) Such person shall not have ultimate responsibility for the performance of audits, reviews, or compilations of financial statements, PCAOB engagements or any other form of attestation with regard to financial information.
- (b) Equity ownership limitations: Persons who are not certified public accountants or registered public accountants shall not (a) hold, in the aggregate, more than a minority interest of such firm's equity ownership or voting rights, or (b) receive, in the aggregate, more than a minority interest of said entity's profits or losses.
- (c) Corporations, Limited Liability Companies, Partnerships, Sole Proprietorships, other requirements: The principal executive officer, managing member, or managing partner shall be a shareholder, member, or partner who is a licensed certified public accountant

or public accountant, who holds a current, valid license in this or another state or jurisdiction. Directors, members, partners, and officers who are not licensees shall not exercise any authority whatsoever over professional matters relating to the practice of public accounting.

7.7 NOTIFICATION OF FIRM CHANGES

Firms established pursuant to A.C.A § 17-12-401 and 17-12-402 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.