



**THE NEW AND REVISED INTERPRETATIONS CONTAINED IN THIS DOCUMENT ARE EFFECTIVE ON AUGUST 31, 2017 UNLESS OTHERWISE NOTED.**

*Ethics interpretations are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication in the Journal of Accountancy constitutes notice to members. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing.*

The Professional Ethics Executive Committee (PEEC) has adopted the following:

- New interpretation “Hosting Services” (ET sec. 1.295.143)<sup>1</sup> under the “Independence Rule” (ET sec. 1.200.001)
- Revised interpretation “Knowing Misrepresentations in the Preparation and Presentation of Information,” formerly “Knowing Misrepresentations in the Preparation of Financial Statements or Records” (ET sec. 2.130.010) under the “Integrity and Objectivity Rule” (ET sec. 2.100.001)
- New interpretation “Pressure to Breach the Rules” (ET sec. 2.170.010) under the “Integrity and Objectivity Rule” (ET sec. 2.100.001)

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<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.

## Text of New “Hosting Services” Interpretation

(Defined terms are italicized.)

### 1.295.143–Hosting Services

- .01 For purpose of this interpretation, hosting services are nonattest services that involve a *member* accepting responsibility for the following:
- a. Acting as the sole host of a financial or non-financial information system of an attest client
  - b. Taking custody of or storing an *attest client’s* data or records whereby, that data or records are available only to the *attest client* from the *member*, such that the *attest client’s* data or records are otherwise incomplete
  - c. Providing electronic security or back-up services for an *attest client’s* data or records
- .02 When a *member* provides hosting services, the *member* is maintaining the *attest client’s* internal control over its data or records. Accordingly, the management participation threat to the *member’s* compliance with the “Independence Rule” [1.200.001] would not be at an *acceptable level*, and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired*.
- .03 Examples of activities that are considered hosting services, and as such will *impair independence* if performed for an *attest client*, include accepting responsibility for the following:
- a. Housing the *attest client’s* website or other non-financial information system
  - b. Keeping the *attest client’s* data or records on the *attest client’s* behalf, for example, the *attest client’s* general ledger information, supporting schedules (such as, depreciation or amortization schedules), lease agreements or other legal documents are stored on the *member’s firm’s* servers or servers licensed by the *member’s firm* or the *member* is responsible for storing hard copy versions of the data or records
  - c. Being the *attest client’s* business continuity or disaster recovery provider
- .04 Examples of activities that are not considered to be hosting services, and as such will not *impair independence* provided *members* comply with the requirements of the other *interpretations* of the “Nonattest Services” subtopic include these:
- a. Retaining a copy of an *attest client’s* data or records as documentation to support a service the *member* provided to the *attest client*. Some examples are as follows:
    - i. The payroll data that support a payroll tax return prepared by the *member* for the attest client
    - ii. A bank reconciliation that supports attest procedures performed by the *member* on the *attest client’s* cash account
    - iii. The *attest client’s* vendor data used to prepare an analysis of vendor activity
  - b. Retaining, for a *member’s* records, a copy of a work product prepared by the *member* (for example, a tax return).
  - c. Using general ledger software to facilitate the delivery of bookkeeping services when either of the following occurs:

- i. The *member* and the *attest client* maintain separate instances of the software on their respective servers, and the *member* provides updated financial information electronically to the *attest client*.
  - ii. The *attest client* enters into an agreement with a third-party service provider to maintain its software in a cloud-based solution and grants the *member* access to the software so that the *member* can perform the bookkeeping service for the *attest client*.
- d. Retaining data collected by the *member* related to a work product that the *member* prepared for an *attest client*. For example, the *member* conducts an employee survey and provides the *attest client* with a report. The *member* retains the survey data collected to support the work product.
- e. Electronically exchanging data, records, or the *member's* work product with an *attest client* or on behalf of an *attest client* at the *attest client's* request. For example, the *member* uses a portal as follows:
  - i. To exchange data and records with the *attest client* related to *professional services* provided by the *member* to the *attest client*
  - ii. To deliver the *member's* work product to third parties at the *attest client's* request

To avoid providing hosting services, *members* should terminate the *attest client's* access to the data or records in the portal within a reasonable period of time after the conclusion of the engagement.

- f. Licensing software to an *attest client* that the *attest client* uses to input its data and receive an output that the *attest client* is responsible for maintaining, provided the software does not perform an activity that, if performed directly by the *member*, would *impair independence*.
- g. Having possession of a depreciation schedule prepared by the *member*, provided the depreciation schedule and calculation are given to the *attest client* so that *attest client's* books and records are complete.
- h. Retaining an *attest client's* original data or records to facilitate the performance of a nonattest service (for example, obtaining original records to prepare the attest client's tax return), provided that the data or records are returned to the *attest client* at the end of the engagement or, in a multi-year engagement, at least annually. This does not apply to ongoing hosting services as described in paragraph .01 of this interpretation.

**Effective Date**

.05 This interpretation is effective September 1, 2018.

**Text of Revised “Knowing Misrepresentations in the Preparation and Presentation of Financial Statements or Records” Interpretation**

*(Deleted text appears in strikethrough, and new text appears in boldface italic.)*

2.130.010 ~~Knowing Misrepresentations in the Preparation and Presentation of Information~~  
~~Financial Statements or Records~~

- .01 Members at all levels in an employing organization may be involved in the preparation and presentation of information for use both within and outside the employing organization. Stakeholders for whom such information is prepared or presented include the following:***
- a. Management and those charged with governance***
  - b. Investors, lenders, and other creditors***
  - c. Regulators***
- .02 This information may assist stakeholders in understanding and evaluating aspects of the employing organization’s operations and finances and in making decisions concerning the employing organization. This includes financial and non-financial information that may be made public or used for internal purposes such as the following:***
- a. Operating and performance reports***
  - b. Decision support analyses***
  - c. Budgets and forecasts***
  - d. Information provided to the internal and external auditors***
  - e. Risk analyses***
  - f. General and special purpose financial statements***
  - g. Tax returns***
  - h. Reports filed with regulators for legal and compliance purposes***
- .03 Members who are responsible for recording, maintaining, preparing, approving, or presenting information should do so in accordance with the “Integrity and Objectivity Rule [2.100.001]” as follows:***
- a. Presenting the information in accordance with a relevant reporting framework, where applicable***
  - b. Preparing or presenting information in a manner that is intended not to mislead, including not to influence contractual or regulatory outcomes inappropriately***
  - c. Preparing or presenting information without omissions that would render the information misleading***
- .04 This responsibility involves using professional judgment in the following:***
- a. Representing the facts accurately and completely in all material respects***
  - b. Describing clearly the true nature of business transactions or activities***
  - c. Classifying and recording information in a timely and proper manner***

***Preparation and Presentation of Financial Statements and Records***

- .05** Threats to compliance with the “Integrity and Objectivity Rule” [2.100.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and the member would be considered to have knowingly misrepresented facts in violation of the “Integrity and Objectivity Rule,” if the member
- a. makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records;
  - b. fails to correct an entity’s financial statements or records that are materially false and misleading when the member has the authority to record the entries; or
  - c. signs, or permits or directs another to sign, a document containing materially false and misleading information. [Prior reference: paragraph .02 of ET section 102]
- .06** *Preparing or presenting information may require the exercise of discretion in making professional judgments. Preparing or presenting such information in compliance with the “Integrity and Objectivity Rule” [2.100.001] requires the member not to exercise such discretion with the intention of misleading-*

#### ***Preparation and Presentation of Information Not Subject to a Reporting Framework***

- .07** *When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the member should use professional judgment to identify and take into account the purpose for which the information is to be used, the context in which it is provided, and the audience to whom it is addressed. For example, when preparing or presenting pro forma reports, budgets, or forecasts, the inclusion of relevant estimates, approximations, and assumptions, where appropriate, would enable those who may rely on such information to form their own judgments. The member may also consider clarifying the intended audience, context, and purpose of the information presented.*

#### ***Reliance on the Work of Others***

- .08** *A member who intends to rely on the work of others, either internal or external to the organization, should use professional judgment to determine what steps to take, if any, to ensure that the requirements set out in paragraphs .03, .04, and .05 are fulfilled. Factors to consider in determining whether reliance on others is reasonable include reputation, expertise, objectivity, resources available to the individual or organization, and whether the other individual is subject to applicable professional and ethical standards. Such information may be gained from prior association with, or from consulting others about, the individual or the organization.*

#### ***Association With Misleading Information***

- .09** *If the member knows or has reason to believe that the information with which he or she is associated is misleading, the member should apply appropriate safeguards to seek to resolve the matter, including the following:*

- a. **Consulting the employing organization’s policies and procedures (for example, an ethics or whistleblowing policy) regarding how such matters should be addressed internally**
  - b. **Discussing concerns that the information is misleading with the member’s supervisor or the appropriate levels of management within the member’s employing organization or those charged with governance and requesting such individuals to take appropriate action to resolve the matter. Such action may include the following:**
    - i. **Having the information corrected**
    - ii. **If the information has already been disclosed to the intended users, informing them of the correct information**
- .10 If the member determines that appropriate action has not been taken and continues to have reason to believe that the information is misleading, threats to compliance with the “Integrity and Objectivity Rule” [2.100.001] would not be at an acceptable level. In such circumstances, the member, being alert to the requirements of the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070], should consider one or more of the following safeguards:**
- a. **Consulting with a relevant professional body**
  - b. **Consulting with the employing organization’s internal auditor and external accountant**
  - c. **Determining whether any requirements exist to communicate to third parties, including users of the information, the organization’s external accountant, or regulatory authorities**
  - d. **Consulting legal counsel regarding his or her responsibilities**
- .11 If, after exhausting all feasible options, the member determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the member should refuse to be or to remain associated with the information. The member also should consider whether to continue a relationship with the employing organization.**
- .12 Nothing in this interpretation precludes a member from resigning from the organization at any time. However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employing organization’s (or former employing organization’s) external accountant.**
- .13 The member is also encouraged to document his or her understanding of the facts, the accounting principles or other relevant professional standards involved, and the communications and parties with whom these matters were discussed, the courses of action considered, and how the member attempted to address the matter.**
- .14 When threats to compliance with the “Integrity and Objectivity Rule” [2.100.001] are due to differences of opinion between a member and his or her supervisor (or any other person within the member’s organization) relating to the application of accounting principles, auditing standards, or other relevant professional standards, the member should also refer to the “Subordination of Judgment” interpretation [2.130.020].**

**[See [Revision History Table](#)]**

**Text of New “Pressure to Breach the Rules” Interpretation**  
(*Defined terms are italicized.*)

2.170.010 Pressure to Breach the Rules

- .01 This interpretation addresses pressures that could result in a *member* taking actions that breach or cause others to breach the rules, particularly the “Integrity and Objectivity Rule” [2.100.001].
- .02 A *member* may face pressure that could create *threats*, for example undue influence *threats*, to compliance with the “Integrity and Objectivity Rule” [2.100.001] when undertaking a *professional service*. Pressure may be explicit or implicit. Pressure may come from within the *employing organization*, for example, from a colleague or superior, from an external individual or organization such as a vendor, customer or lender, or from the need to meet internal or external targets and expectations.
- .03 A *member* should not allow pressure from others to result in a breach of the “Integrity and Objectivity Rule” [2.100.001]. A *member* also should not place pressure on others that the *member* knows, or has reason to believe, would result in the other individuals breaching the rules of the AICPA Code of Professional Conduct.
- .04 Examples of pressure that could result in a breach of the “Integrity and Objectivity Rule” [2.100.001] include the following:
  - a. Pressure related to conflicts of interest, for example, pressure from a family member bidding to act as a vendor to the *member’s employing organization* to select that vendor over another prospective vendor  
  
Refer to the “Conflicts of Interest for Members in Business” interpretation [2.110.010] for additional guidance.
  - b. Pressure to influence presentation of information:
    - i. Pressure to report misleading financial results to meet investor, analyst, or lender expectations.
    - ii. Pressure from elected officials on government accountants to misrepresent programs or projects to voters.
    - iii. Pressure from colleagues to misstate income, expenditure, or rates of return to bias decision-making on capital projects and acquisitions.
    - iv. Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
    - v. Pressure to suppress internal audit reports containing adverse findings.  
  
Refer to the “Knowing Misrepresentations in the Preparation and Presentation of Information” interpretation [2.130.010] for additional guidance.
  - c. Pressure to act without sufficient competence or due care:
    - i. Pressure from superiors to inappropriately reduce the extent of work performed.

- ii. Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

Refer to the “General Standards Rule” [2.300.001] for additional guidance.

- d. Pressure related to financial interests. For example, pressure to manipulate performance indicators from superiors, colleagues or others, such as those who may benefit from participation in compensation or incentive arrangements.
- e. Pressure related to gifts or entertainment:
  - i. Pressure from others, either internal or external to the *employing organization*, to offer gifts or entertainment to inappropriately influence the judgment or decision-making process of an individual or organization.
  - ii. Pressure from colleagues to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

Refer to the “Offering or Accepting Gifts or Entertainment” interpretation [2.120.010] for additional guidance.

.05 In determining whether the pressure could result in a breach of the “Integrity and Objectivity Rule” [2.100.001], the *member* might consider factors including the following:

- a. The intent of the individual who is exerting the pressure and the nature and significance of the pressure.
- b. The application of relevant laws, regulations, and professional standards to the circumstances.
- c. The culture and leadership of the employing organization including the extent to which it emphasizes the importance of ethical behavior and the expectation that employees will act in an ethical manner. For example, a corporate culture that tolerates unethical behavior may increase the likelihood that the pressure would result in a breach of the rules.
- d. Policies and procedures, if any, that the *employing organization* has established, such as ethics or human resources policies that address pressure.

.06 In considering the factors in paragraph .05 along with other factors, and being alert to the requirements of the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070], the *member* may consult with the following:

- a. A colleague, superior, human resources personnel, internal compliance personnel, or another professional accountant.
- b. Relevant professional or regulatory bodies or industry associations.
- c. Legal counsel.

.07 If the *member* determines that the pressure would result in a breach of the “Integrity and Objectivity Rule” [2.100.001], the *member* might consider *safeguards*, including these:

- a. Discussing the matter with the individual who is exerting the pressure to seek to resolve it.



- b. Discussing the matter with the member's supervisor if the supervisor is not the individual exerting the pressure.
  - c. Escalating the matter within the *employing organization*, for example, with higher levels of management, internal or external auditors, or *those charged with governance*, including independent directors and, when appropriate, explaining any consequential risks to the organization.
  - d. Requesting restructuring or segregating certain responsibilities and duties so that the member is no longer involved with the individual or entity exerting the pressure, when doing so would eliminate the pressure to breach the "Integrity and Objectivity Rule." For example, if a member is pressured in relation to a conflict of interest, the pressure to breach the rule may be eliminated if the *member* avoids being associated with the matter creating the conflict.
  - e. Disclosing the matter in accordance with the *employing organization's* policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
  - f. Consulting with legal counsel.
- .08 In situations in which the *member* determines that the pressure to breach the "Integrity and Objectivity Rule" [2.100.010] has not been eliminated, the *member* should do the following:
- a. Decline to undertake or discontinue the professional activity that would result in a breach of the rule.
  - b. Consider whether to continue a relationship with the *employing organization*.
- .09 The *member* is also encouraged to document the facts, the communications, the courses of action considered, the parties with whom these matters were discussed, and how the matter was addressed.

***Effective Date***

- .10 This interpretation is effective August 31, 2017.