

Professional Ethics

Executive Committee

Fact Sheet 2014

- ☑ **A Brief History of the Committee.** The professional ethics executive committee (the Committee) – in its current form – dates back to 1971. However, the Committee’s earliest predecessor was the American Association of Public Accountants’ Committee on Ethics, which was formed in 1906 to develop ethics standards to which its members should adhere.
- ☑ **The Committee and its Objectives.** The Professional Ethics Executive Committee (the Committee) is a senior committee of the American Institute of Certified Public Accountants (AICPA) charged with the responsibility of interpreting and enforcing the AICPA Code of Professional Conduct (the Code). The AICPA bylaws provide that the Committee shall (1) investigate potential disciplinary matters involving members, (2) present a case before the joint trial board where it finds prima facie evidence of infraction of the bylaws or the Code, and (3) interpret the Code and propose amendments thereto.
- ☑ **Members of the Committee.** The Committee is composed of twenty to twenty-one members who are appointed annually by the Chair of the AICPA Board of Directors. Committee members come from both inside and outside of the accounting profession, including public accounting, law, government, academia and industry.
- ☑ **The Committee’s Standard-Setting Process.** The AICPA membership adopted the Code of Professional Conduct (the Code) to provide rules to all members – those in public practice, in industry, government, and education – to be applied in the performance of their professional responsibilities. As “interpreter” of the Code the Committee is responsible for promulgating new interpretations and rulings, and for monitoring those rules and making revisions as needed.
- ☑ **The Joint Ethics Enforcement Program ("JEEP").** JEEP is a joint AICPA/state CPA society program for ethics enforcement that has existed since the early 1970s. The program's objectives are to provide (1) a single investigation and action with respect to a person who is a member of both the AICPA and the society; (2) uniformity in the codes of conduct of the AICPA and societies; and, (3) uniformity in the enforcement and implementation of the codes of conduct of the AICPA and CPA societies.
- ☑ **The Committee’s Structure.** The Committee’s structure includes the AICPA Professional Ethics Division and two ethics enforcement subcommittees
- ☑ **Frequency and Conduct of Meetings.** The Committee generally meets quarterly for two days; a portion of each meeting is devoted to standard-setting activities, which are open to the public, and to case investigation and other enforcement matters, which are closed to the public due to confidentiality requirements.

A Brief History of the Committee

The Professional Ethics Executive Committee (the Committee)—in its current form—dates back to 1971. However, the Committee’s earliest predecessor was the American Association of Public Accountants’ Committee on Ethics, which was formed in 1906 to develop ethics standards to which its members should adhere. Ten years later, the Committee on Ethics was empowered to consider and evaluate a member’s conduct in terms of compliance with those standards. (By that time, the organization had evolved to become the American Institute of Accountants.) The stock market crash of 1929 prompted a heightened focus on ethics enforcement; in 1940, following a decision by the Securities and Exchange Commission to voluntarily advise the Committee of any of its investigatory or disciplinary actions involving the conduct of Institute members, the Committee strengthened its disciplinary role by investigating any matter that suggested even the possibility of a member’s violation of professional conduct.

The Committee’s role in standard-setting and ethics enforcement has continued to grow over the years; today’s Committee is a senior committee of the American Institute of Certified Public Accountants (AICPA). As such, the AICPA Council—the organization’s governing body—prescribes certain duties, powers, responsibilities, and procedures to the Committee, which are described in this document.

The Committee and its Objectives

The Professional Ethics Executive Committee (the Committee) is a senior committee of the American Institute of Certified Public Accountants (AICPA) charged with the responsibility of interpreting and enforcing the AICPA *Code of Professional Conduct*. In summary, the AICPA bylaws provide that the Committee shall (1) investigate potential disciplinary matters involving members, (2) arrange for presentation of a case before the joint trial board where the committee finds prima facie evidence of infraction of the bylaws or the *Code of Professional Conduct*, and (3) interpret the *Code of Professional Conduct* and propose amendments thereto.

Accordingly, the Committee helps the AICPA carry out key parts of its mission, namely to:

- Promote public awareness and confidence in the integrity, objectivity, competence and professionalism of its members;
- Establish and enforce professional ethics standards for the profession;
- Assist members in continually improving their professional conduct and performance.

Members of the Committee

The Committee is composed of twenty members who are appointed annually by the chair of the AICPA Board of Directors. Members are appointed for a one-year term, which is generally renewed for up to three years. Members may in some instances be asked to serve longer terms. The chair of the Committee is an ex-officio member of the subcommittees, tasks forces, and study groups of the division (see "The Committee’s Structure" below); the Chair may serve for three years prior to serving as chair, which generally carries a three-year term.

Committee members come from both inside and outside of the accounting profession, including public accounting, law, government, academia and industry. They are:

- Three (3) "public" members (non-CPAs from outside the profession) who are compensated for serving on the Committee.
- Seventeen (18) volunteer members.
 - Members in the practice of public accounting come from firms of all sizes, which include a balance of sole proprietorships and small, local firms, regional or mid-sized firms and large, national and international firms.
 - Members devote substantial amounts of their time to accomplishing the Committee’s objectives, anywhere from 150 – 300 hours for members and 500 or more hours per year for the Chair.

The *current roster* is available on the AICPA web site.

The Committee's Standard-Setting Process

The AICPA membership adopted the [Code of Professional Conduct](#) (the Code) to provide rules to all members—those in public practice, in industry, government, and education—to be applied in the performance of their professional responsibilities. As practice has evolved, so has the Code, which has gone through much iteration.

- ☑ As "interpreter" of the Code, the Committee is responsible for promulgating new interpretations and rulings, and for monitoring those rules and making revisions as needed.
- ☑ To fulfill its standard-setting objectives, the Committee
 - Holds quarterly meetings that are open to the public. The Committee invites state and federal representatives, among others, to attend open meetings, either in person or via telephone.
 - Considers issues of concern to the profession by deliberating emerging issues and those brought to its attention via member inquiry and other sources.
 - Actively seeks input from the AICPA board or council, from other AICPA committees, other organizations and state and federal regulators.
 - Publicizes its [three-year agenda](#) by posting it to the AICPA web site.
 - Publicizes its most recent [meeting agenda](#) by posting it to the AICPA web site.
 - Publicizes [minutes of past Committee meetings](#) by posting them to the AICPA web site.
 - Exposes proposed new or revised interpretations and rulings for a period of at least 60 days to allow members and other interested parties to comment on its proposals. Exposure drafts are posted to the AICPA web site and are publicized in AICPA publications such as the *Journal of Accountancy* and *The CPA Letter*, which are distributed to all AICPA members.
 - Considers all comments received during the exposure process in open Committee meetings before issuing final pronouncements.
 - Publicizes new pronouncements in the *Journal of Accountancy's Official Releases* and on the AICPA web site.

The Joint Ethics Enforcement Program

Bylaw Section 7.4 (BL §740.2) authorizes the formation of the Joint Ethics Enforcement Program (JEEP). JEEP is a joint AICPA/state CPA society program that has existed since the early 1970s. The program's objectives are to provide: (1) a single investigation and action with respect to a person who is a member of both the AICPA and the society; (2) uniformity in the codes of conduct of the AICPA and CPA societies; and, (3) uniformity in the enforcement and implementation of the codes of conduct of the AICPA and state CPA societies.

The [JEEP Manual of Procedures](#) may be downloaded from the AICPA web site.

JEEP Procedures require that case investigations be carried out in a confidential manner. This requirement exists in order to afford members due process while allegations of unethical conduct are investigated under the program. However, JEEP procedures do permit, under certain circumstances exceptions to this rule, specifically:

- If the case has been referred by certain federal or state agencies or is an SEC matter, JEEP procedures provide for exchange of the Committee's disciplinary action on a confidential basis between the AICPA or state society and the federal and/or state regulatory agencies having disciplinary responsibilities; *and*
- Information regarding the outcome of investigations become public information where the Committee finds prima facie evidence of a violation of the *Code of Professional Conduct* (or AICPA bylaws where the member is found to have not cooperated with an investigation) and such finding results in either (1) the member's acceptance of a settlement agreement, which requires admonishment, suspension or termination of his or her AICPA (and/or state society) membership or (2) a guilty finding resulting from the member's hearing before the AICPA's joint trial board. In accordance with AICPA Bylaw Section 7.6 and the Bylaws and/or Codes of Professional Conduct of the JEEP participating state CPA societies, such disciplinary actions will be published.
- The results of the investigation will be shared with the complainant (where one exists).

The Committee's Structure

Professional Ethics Division

The staff of the AICPA professional ethics division coordinates the Committee's standard-setting and ethics enforcement activities. The staff also educates members and other interested parties by promoting understanding of ethical standards contained in the AICPA *Code of Professional Conduct* (the Code) via the Ethics Hotline (and e-mail at ethics@aicpa.org) which in recent years has averaged 4,000 inquiries per year.

The Committee oversees two subcommittees that investigate matters alleging member misconduct. The functions of those subcommittees are described below:

Independence/Behavioral Standards (IND/BHS) Subcommittee

The IND /BHS Subcommittee:

- is responsible for the investigation of complaints alleging violations of the Code relating to independence and behavioral standards. The Committee has delegated to the IND/BHS subcommittee the authority to recommend acceptance of member resignation, offer settlement agreements that do not affect membership rights, and require that members found by the IND/BHS subcommittee to be in violation of the Code take appropriate remedial or corrective action. However, only the Committee may refer members to a hearing panel of the joint trial board after investigation or offer members' settlement agreements affecting membership rights (i.e., suspension or expulsion). The IND/BHS subcommittee may recommend that the Committee take such action under the appropriate circumstances.
- May identify issues concerning proposed revisions or additions to the Code for consideration by the PEEC.
- Consists of AICPA members who are appointed annually by the chair of the Institute's Board of Directors. Each member would normally not serve more than three years, although the chair may serve as chair for up to three years in addition to service as a non-chair member.

Technical Standards (TNS) Subcommittee

The TNS Subcommittee is responsible for the investigation of complaints alleging violation of the rules of the Code relating to members' performance of professional services that do not involve independence or behavioral standards (i.e., violations of technical accounting or auditing standards). Similar to the IND/BHS subcommittee, the Committee has granted similar authority to the TNS subcommittee to investigate members. It may also identify issues concerning proposed revisions or additions to the Code for consideration by the Committee. The TNS Subcommittee consists of AICPA members who are appointed annually by the chair of the AICPA Board of Directors.

Task Forces and Study Groups and Ad Hoc Investigators and Members

The Committee chair may appoint a task force or study group to address a specific issue or to develop a particular pronouncement. Task forces or study groups may consist of members of the Committee, a subcommittee, or such nonmembers as needed to provide particular expertise regarding the subject under consideration (for e.g., a member who has an expertise in information technology) or to obtain particular input during the rulemaking process (for e.g., from a federal regulator or state board of accountancy representative). The latter are considered to be "ad hoc" members of the task force or study group.

An AICPA member who is not a member of the Committee or one of the subcommittees may also be asked to assist in the investigation of a particular case (or cases) being investigated under the Joint Ethics Enforcement Program, normally to ensure a certain technical expertise during an investigation (for example, knowledge of the federal tax code). The ad hoc investigator will be informed of the duty to maintain the confidentiality of the investigation and its results. Ad hoc investigators attend subcommittee (TNS or IND/BHS) or Committee meetings to report on the status or conclusion of the investigations; however, they do not have a vote at subcommittee or Committee meetings.

Frequency and Conduct of Meetings

The Committee generally meets quarterly for two days. A portion of each meeting is devoted to open sessions during which the Committee carries out its standard-setting discussions and other activities.

These sessions are open to the public. The other portion of the meeting is devoted to reviewing various case investigations. The AICPA staff provides Committee members materials for both sessions in advance of the meeting.

Special meetings may be called as deemed necessary by the chair; Committee members must receive proper notice of the date of such a meeting. Depending upon the timing of subcommittee meetings and the workload at a particular meeting, the Committee may schedule a conference call meeting to dispose of case investigations and other matters.

A quorum is a majority of appointed members, including the chair, and the loss of a quorum precludes a vote. Votes on standard-setting and enforcement matters are generally taken by a show of hands; all matters are moved to a vote by means of a seconded motion; motions carry if supported by a simple majority and fail in the event of a tie. However, motions to pass the issuance of an exposure draft or adopt a final ethics standard require a super majority of those voting.

Votes are required for the following actions:

- To adopt an ethics pronouncement for publication in the *Journal of Accountancy*.
- To determine whether a member has violated the *Code of Professional Conduct* (the Code).
- To determine what corrective action is required of a member who has been found to have violated the Code, including:
 - To refer a member to a hearing by the joint trial board;
 - To offer a settlement agreement that would affect membership rights (i.e., would require the individual's membership in the AICPA to be suspended or expelled);
 - To recommend acceptance of a member's resignation.