



Professional Ethics Division

Revised definition and interpretations

# Loans, Acquisitions, and Other Transactions

ET sec. 0.400.06, 1.210.010, 1.224.010, 1.260.010, 1.260.020, and 1.270.010

Effective December 31, 2022

Standards-setting

March 2022

Ethics interpretations and other guidance 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.

The Professional Ethics Executive Committee adopted the following revisions at its February 2022 meeting:

- Definition of “beneficially owned,” (ET sec. 0.400.06)
- “Conceptual Framework for Independence” (ET sec. 1.210.010)
- “Client Affiliates” (ET sec. 1.224.010)
- “Loans” (ET sec. 1.260.010)
- “Loans and Leases With Lending Institutions” (ET sec. 1.260.020)
- “Immediate Family Members” (ET sec. 1.270.010)

Notice of the revisions will appear in the *Journal of Accountancy* online in June 2022. The new interpretations and revisions are effective December 31, 2022, and early implementation is allowed.

# Contents

- 0.400 Definitions ..... 1
- 1.210.010 Conceptual Framework for Independence [excerpt] ..... 2
- 1.224.010 Client Affiliates ..... 3
- 1.260.010 Loans ..... 10
- 1.260.020 Loans and Leases With Lending Institutions..... 11
- 1.270.010 Immediate Family Members [excerpt]..... 14

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

## 0.400 Definitions

.06 **Beneficially owned, *beneficial ownership interest***. Describes a [financial interest](#) of which ~~providing~~ an individual or entity, ~~is not the record owner, but has a~~ ***the*** right to some or all of the underlying benefits of ownership. These benefits include the authority to direct the voting or disposition of the interest or to receive the economic benefits of the ownership of the interest.

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

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

## 1.210.010 Conceptual Framework for Independence [excerpt]

.16 *Self-interest threat*. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, an *attest client* or persons associated with the attest client. Examples of self-interest *threats* include the following:

- a. A *member* has a direct financial interest or material indirect financial interest in the *attest client*. [1.240.010]
- b. A *member* has a loan from the *attest client*, an officer or a director of the *attest client* **with the ability to affect decision-making**, or any individual **with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over**, ~~who owns 10 percent or more of the *attest client*'s outstanding equity securities.~~ [1.260.010]
- c. A *member* or *member's firm* relies excessively on revenue from a single *attest client*.
- d. A *member* or *member's firm* has a material joint venture or other material joint business arrangement with the *attest client*. [1.265]

[See Revision History Table.]

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

## 1.224.010 Client Affiliates

.01 Financial interests in, and other relationships with, affiliates of a financial statement attest client may create threats to a member's compliance with the "Independence Rule" [1.200.001].

.02 When a client is a financial statement attest client, members should apply the "Independence Rule" [1.200.001] and related interpretations applicable to the financial statement attest client to their affiliates, except in the following situations:

a. **During the period of the professional engagement, a covered member may have a loan to or from an**

- i. ***officer or director of an affiliate of a financial statement attest client, unless the officer or director has the ability to affect the decision-making at the financial statement attest client.***
- ii. ***individual with a beneficial ownership interest (known through reasonable inquiry) in an affiliate of a financial statement attest client, unless the ownership interest gives the individual significant influence over the financial statement attest client.***

~~individual who is an officer, a director, or a 10 percent or more owner of an affiliate of a financial statement attest client during the period of the professional engagement unless the covered member knows or has reason to believe that the individual is in such a position with the affiliate. If the covered member knows or has reason to believe that the individual is an officer, a director, or a 10 percent or more owner of the affiliate, the covered member should evaluate the effect that the relationship would have on the covered member's independence by applying the "Conceptual Framework for Independence" [1.210.010].~~

b. A member or the member's firm may provide prohibited nonattest services to entities described under items c–l of the definition of affiliate during the period of the professional engagement or during the period covered by the financial statements, provided that it is reasonable to conclude that the services do not create a self-review threat with respect to the financial statement attest client because the results of the nonattest services will not be subject to financial statement attest procedures. For any other threats that are created by the provision of the nonattest services that are not at an acceptable level (in particular, those relating to management participation), the member should apply safeguards to eliminate or reduce the threats to an acceptable level.

- c. A *firm* will only have to apply the “[Subsequent Employment or Association With an Attest Client](#)” interpretation [1.279.020] of the “Independence Rule” if the former employee, by virtue of his or her employment at an entity described under items c–l of the definition of *affiliate*, is in a [key position](#) with respect to the *financial statement attest client*. [Individuals in a position to influence the attest engagement](#) and on the [attest engagement team](#) who are considering employment with an *affiliate* of a *financial statement attest client* will still need to report consideration of employment to an appropriate person in the *firm* and remove themselves from the *financial statement attest engagement*, even if the position with the *affiliate* is not a *key position*.
  - d. A *covered member’s immediate family* members and *close relatives* may be employed in a *key position* at an entity described under items c–l of the definition of *affiliate* during the *period of the professional engagement* or during the period covered by the *financial statements*, provided they are not in a *key position* with respect to the *financial statement attest client*.
  - e. A *covered member* who is an individual on the [attest engagement team](#), an *individual in a position to influence the attest engagement*, or the *firm* may have a lease that does not meet the requirements of the “[Leases](#)” interpretation [1.260.040] under the “Independence Rule” with an entity described under items c–l of the definition of *affiliate* during the *period of the professional engagement*. The *covered member* should use the “Conceptual Framework for Independence” to evaluate whether any *threats* created by the lease are at an *acceptable level*. If the *covered member* concludes that *threats* are not at an *acceptable level*, the *covered member* should apply [safeguards](#) to eliminate the *threats* or reduce them to an *acceptable level*.
  - f. A *member* or *member’s firm* may enter into a staff augmentation arrangement with entities described under items (c)–(l) of the definition of *affiliate* during the *period of the professional engagement* or during the period covered by the *financial statements*. The *member* should use the “[Conceptual Framework for Independence](#)” to evaluate whether any *threats* created by the staff augmentation arrangement are at an *acceptable level*. If the *member* concludes that *threats* are not at an *acceptable level*, the *member* should apply *safeguards* to eliminate the *threats* or reduce them to an *acceptable level*. If *safeguards* are not available or cannot be applied to eliminate or reduce the *threats* to an *acceptable level*, the *member* should not enter into the staff augmentation arrangement
- .03 A [member](#) must expend best efforts to obtain the information necessary to identify the [affiliates](#) of a [financial statement attest client](#). If, after expending best efforts, a *member* is unable to obtain the information to determine which entities are *affiliates* of a *financial statement attest client*, [threats](#) would be at an [acceptable level](#) and [independence](#) would not be [impaired](#) if the *member* (a) discusses the matter, including the potential impact on

*independence*, with those charged with governance; (b) documents the results of that discussion and the efforts taken to obtain the information; and (c) obtains written assurance from the *financial statement attest client* that it is unable to provide the *member* with the information necessary to identify the *affiliates* of the *financial statement attest client*.

- .04 This interpretation does not apply to a *financial statement attest client* that is covered by the “State and Local Government Client Affiliates” interpretation [1.224.020] of the “Independence Rule” [1.200.001]. [Prior reference: paragraph .20 of ET section 101]

### Acquisitions or ~~and Other Business Combinations That Involve~~ *Transaction Involving a Financial Statement Attest Client or Its Affiliates That Results in the Creation of a New Affiliate*

- .05 An entity may become a new affiliate of an existing financial statement attest client because of an acquisition or other transaction. A threat to independence and, therefore, to the ability of a member or member’s firm to continue a financial statement attest engagement might be created by previous or current interests or relationships between the member or member’s firm and the new affiliate.**

***Paragraphs .06–.13 provide guidance on how independence is affected when such interests in or relationships with a new affiliate exist.*** ~~The exception in paragraph .06 would apply when (1) a *financial statement attest client* is acquired during the *period of the professional engagement* by either a nonclient or a nonattest client (acquirer), (2) the *attest engagement* covers only periods prior to the acquisition, and (3) the *member* or *member’s firm* will not continue to provide *financial statement attest services* to the acquirer.~~

### An Existing Financial Statement Attest Client Is Acquired and the Member or Member’s Firm Will Not Continue Providing Financial Statement Attest Services to Such Client After the Current Attest Report Is Issued and the Report Does Not Cover Periods After the Effective Date of the Acquisition

- .06 Independence will not be considered impaired with respect to the financial statement attest client because *When* a member or member’s firm has an interest in or relationship with the *an* acquirer that may otherwise impair independence as a result of the requirements of this interpretation or the definition of “attest client” (as it relates to the entity or person that engages the *member* or *member’s firm* to perform the attest engagement), independence with respect to the financial statement attest client will not be considered impaired if all the following conditions are met:**

- a. ***The acquisition occurs during the period of the professional engagement.***
- b. ***The financial statement attest engagement covers only periods prior to the***



*effective date of the acquisition.*

- c. The member or member's firm will not continue to provide [financial statement attest services](#) to the existing financial statement attest client for periods after the effective date of the acquisition.*

~~07 Notwithstanding paragraph .06, a member should give consideration to the requirements of the "Conflicts of Interest" interpretation [1.110.010], under the "Integrity and Objectivity Rule" [1.100.001], with regard to any relationships that the member knows or has reason to believe exist with the acquirer, the *financial statement attest client*, or the *firm*.~~

~~.08 A member should refer to paragraph .03 of "Application of the AICPA Code" [0.200.020] for guidance on circumstances involving foreign network firms.~~

### **An Existing Financial Statement Attest Client or Its Affiliate Is Involved in an Acquisition or Other Transaction and the Member or Member's Firm Expects to Continue Providing Financial Statement Attest Services to Such Client**

**.07 When an acquisition or other transaction creates a new [affiliate](#) of a [financial statement attest client](#) during the [period of professional engagement](#) and the [member](#) or member's [firm](#) expects to continue providing [financial statement attest services](#) to the financial statement attest client after the effective date of the acquisition or other transaction, the following conditions should be met:**

- a. The member or member's firm should identify and evaluate previous and current interests in and relationships with the new affiliate, including actions taken to address the [threat to independence](#), that might affect independence and therefore the member's or member's firm's ability to continue the financial statement [attest engagement](#) after the effective date of the acquisition or other transaction.*
- b. Except as provided for in paragraph .08, the member or member's firm should take steps to end any interests in or relationships with the new affiliate that would [impair](#) independence by the effective date of the acquisition or other transaction.*

**.08 As an exception to paragraph .07b, if the interest in or relationship with the new [affiliate](#) cannot reasonably be ended by the effective date of the acquisition or other transaction (for example, the new affiliate is not able to transition a nonattest service in an orderly manner to another service provider by that date), the [member](#) or member's [firm](#) should do the following:**

- a. Evaluate the [threat to independence](#) that is created by the interest or*

**relationship. Factors that are relevant in evaluating the significance of a threat when there are interests and relationships with a new affiliate that cannot reasonably be ended could include these:**

- i. The nature and significance of the interest or relationship***
- ii. The nature and significance of the affiliate relationship (for example, whether the affiliate is a subsidiary, parent, or sister entity)***
- iii. The length of time until the interest or relationship can reasonably be ended***

***b. Discuss with [those charged with governance](#) the evaluation of the significance of threat and the reasons that the interest or relationship cannot reasonably be ended by the effective date of the acquisition or other transaction.***

**.09 Following the discussion in paragraph .08b, if [those charged with governance](#) request the [member](#) or member's [firm](#) to continue to provide [financial statement attest services](#) to the [financial statement attest client](#), the member or member's firm should do so only under the following circumstances:**

- a. The interest in or relationship with the new [affiliate](#) that would [impair independence](#) will end as soon as reasonably possible but no later than six months after the effective date of the acquisition or other transaction.***
- b. Any individual who has such an interest in or relationship with the new affiliate, including one that has arisen through performing a nonattest service that would impair independence under the "[Nonattest Services](#)" subtopic [1.295] of the "[Independence Rule](#)" [1.200.001], will not be a member of the [attest engagement team](#) or an individual responsible for the engagement quality control review.***
- c. [Safeguards](#) will be applied, as necessary, and discussed with those charged with governance.***

An Existing Financial Statement Attest Client or Its Affiliate Is Involved in an Acquisition or Other Transaction and the Member or Member's Firm Will Complete the Existing Financial Statement Attest Engagement but Will Not Continue Providing Such Services After the Current Attest Report Is Issued but the Report May Cover Periods After the Effective Date of the Acquisition or Other Transaction

**.10 When a [member](#) or member's [firm](#) will not continue to provide [financial statement attest services](#) to the [financial statement attest client](#) that is involved in an acquisition or other transaction, the member or member's firm may issue the**

**current report covering a period after the effective date of the acquisition or other transaction if all the following conditions are met:**

- a. **The member or member's firm completed a significant amount of work on the current financial statement attest engagement prior to the effective date of the acquisition or other transaction. Whether a significant amount of work has been completed will depend upon the remaining procedures as compared to the overall engagement procedures.**
- b. **The member or member's firm expects to complete the remaining financial statement attest procedures and issue the attest report within a reasonable period of time. A reasonable period of time will be dependent upon facts and circumstances.**
- c. **Those charged with governance request that the member or member's firm complete the financial statement attest engagement despite the member or member's firm continuing to have an interest in or relationship with the new affiliate that will impair independence.**
- d. **The member or member's firm has evaluated the significance of the threat to independence and discussed the results with those charged with governance.**
- e. **The member or member's firm complies with the requirements of paragraph .09b–c.**
- f. **The member or member's firm ceases to be the auditor no later than the date that the attest report is issued.**

## Other Considerations When an Existing Financial Statement Attest Client or Its Affiliate Is Involved in an Acquisition or Other Transaction

### Objectivity

- .11 Even if all the requirements of paragraphs .06–.10 could be met, the member or member's firm should consider whether the requirements of the "Conflicts of Interest for Members in Public Practice" interpretation [1.110.010] under the "Integrity and Objectivity Rule" [1.100.001] are applicable, with regard to any circumstances identified in paragraphs .06, .07, or .10.**

### Documentation

- .12 The member or member's firm should consider documenting the following:**
- a. **Any interests or relationships identified in paragraphs .07 or .10 that will not be ended by the effective date of the acquisition or other transaction and the reasons they will not be ended**
  - b. **The safeguards applied, if appropriate**
  - c. **The results of the discussion with those charged with governance**
  - d. **The reasons the previous and current interests and relationships do not create a threat that will compromise objectivity**

## Circumstances Involving Foreign Network Firms

- .13 A *member* should refer to paragraph .03 of “[Application of the AICPA Code](#)” [0.200.020] for guidance on circumstances involving foreign *network firms*.

## Effective date

- .14 [Paragraphs .01–.04](#) are effective for engagements covering periods beginning on or after January 1, 2014. Early implementation is allowed.

[See [Revision History Table](#)]

Nonauthoritative questions and answers regarding the application of the independence rules to affiliates of employee benefit plans are available at <https://us.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/faqs-application-independence-rules-affiliates-of-employee-benefit-plans.pdf>.

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

## 1.260.010 Loans

- .01 If a covered member has a loan to or from an attest client, any officer or director of the attest client ***with the ability to affect decision-making***, or any individual ***with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence*** ~~over owning 10 percent or more of the attest client's outstanding equity securities or other ownership interests~~, a self-interest threat to the covered member's compliance with the "Independence Rule" [1.200.001] may exist. *Threats* would not be at an acceptable level and independence would be impaired if the loan exists during the period of the professional engagement, except as provided for in the
- a. "Loans and Leases With Lending Institutions" interpretation [1.260.020] of the "Independence Rule."
  - b. "Client Affiliates" interpretation [1.224.010] of the "Independence Rule."

[See Revision History Table]

Additions appear in **boldface italic**. Deletions appear in ~~strikethrough~~.

## 1.260.020 Loans and Leases With Lending Institutions

**.01** The “Loans” interpretation [1.260.010] of the “Independence Rule” [1.200.001] provides that a self-interest threat would not be at an acceptable level and independence would be impaired if a covered member had a loan to or from an attest client, any officer or director of the attest client **with the ability to affect decision-making**, or any individual **with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence** ~~over-owning 10 percent or more of the attest client’s outstanding equity securities or other ownership interests~~, except as provided for in this interpretation.

Home Mortgages, Other Secured Loans, and Immaterial Unsecured Loans, and Student Loans

**.02** The loans covered by paragraph .03 include home mortgages, other secured loans, unsecured loans that are not material to the covered member’s net worth (that is, immaterial unsecured loans), and student loans.

~~.02.~~**.03** ~~Home mortgages, secured loans, and immaterial unsecured loans~~ However, Threats would be at an acceptable level and independence would not be impaired if a covered member or his or her immediate family has **any of the loans identified in paragraph .02** ~~an unsecured loan that is not material to the covered member’s net worth (that is, immaterial unsecured loan), a home mortgage, or a secured loan~~ from a lending institution attest client, if all the following safeguards are met:

- a. ~~The home mortgage, secured loan, or immaterial unsecured loan was~~ **loans were** obtained under the lending institution’s normal lending procedures, terms, and requirements. In determining when the home mortgage, secured loan, or immaterial unsecured loan was obtained, the date a commitment or line of credit is granted must be used, rather than the date a transaction closes or funds are obtained.
- b. ~~The home mortgage, secured loan, or immaterial unsecured loans were~~ **was** obtained **in one of the following ways (in determining when the loans were obtained, the date a commitment or line of credit is granted must be used, rather than the date a transaction closes or funds are obtained):**
  - i. ~~From the lending institution~~ prior to its becoming an attest client;
  - ii. ~~From a lending institution~~ for which independence was not required and **that** was later sold to an attest client;
  - iii. ~~after May 31, 2002, From a lending institution~~ attest client by a borrower prior

to **the member** his or her becoming a *covered member* with respect to that *attest client*, or

- iv. **P**prior to May 31, 2002, and the requirements of the loan transition provision in [www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/transistion%20periods.pdf](http://www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/transistion%20periods.pdf) are met.
- c. After **an individual** becomes a *covered member*, any home mortgage, secured loan, or immaterial unsecured **loans** must be kept current regarding all terms, at all times, and the terms may not change in any manner not provided for in the original agreement. Examples of changed terms are a new or extended maturity date, a new interest rate or formula, revised collateral, and revised or waived covenants.
- d. The estimated fair value of the collateral for a home mortgages or other secured **loans** must **should** equal or exceed the outstanding balance during the term of the home mortgages or other secured **loans**. If the estimated fair value of the collateral is less than the outstanding balance of the home mortgages or other secured **loans**, the portion that exceeds the estimated fair value of the collateral may not be material to the *covered member's* net worth.

#### Loans to Partnerships and Other Similar Entities

~~.03.~~ **.04** ~~Loans to partnerships and other similar entities.~~ For purposes of applying the **loan** provision in paragraph .032 when the **covered member** is a partner in a partnership, a *loan* to a limited partnership (or similar type of entity) or general partnership would be ascribed to each *covered member* who is a partner in the partnership on the basis of his or her legal liability as a limited or general partner if

- a. the *covered member's* interest in the limited partnership, either individually or combined with the interest of one or more *covered members*, exceeds 50 percent of the total limited partnership interest, or
- b. the *covered member*, either individually or together with one or more *covered members*, can **control** the general partnership.

Even if no amount of a partnership *loan* is ascribed to the *covered member(s)* previously identified, **threats** to compliance with the "**Independence Rule**" [1.200.001] would not be at an **acceptable level** and could not be reduced to an **acceptable level** through the application of **safeguards** if the partnership renegotiates a *loan* or obtains a new *loan* that is not a permitted *loan*, as described in paragraph .054 of this interpretation. Accordingly, **independence** would be **impaired**.

#### Other Loans and Leases

~~.05.~~ ~~Other loans and leases.~~ **Threats** would be at an **acceptable level** and **independence** would not be **impaired** if a **covered member** obtains one of the following types of **loans** or leases under the **lending institution's normal lending procedures, terms, and requirements**, provided

the *covered member* complies with the terms of the *loan* or lease agreement at all times (for example, keeping payments current):

- a. Automobile *loans* and leases collateralized by the automobile
- b. *Loans* fully collateralized by the cash surrender value of an insurance policy
- c. *Loans* fully collateralized by cash deposits at the same *lending institution* (for example, passbook *loans*)

~~.06 d.~~ **Threats would be at an acceptable level and independence would not be impaired if a covered member** Aggregate outstanding balances from *has consumer loans (for example, credit cards, retail installment loans, and home improvement loans)* and overdraft reserve accounts **from the same lending institution** that have an **aggregate outstanding** balance of \$10,000 or less **on a current basis, taking into consideration the** after payment of the most recent monthly statement made by the due date or within **and** any available grace period.

#### Other Matters

~~.07 .05~~ **Members** should consider that certain state and federal agencies may proscribe more restrictive requirements over **lending institutions** that are subject to their oversight and that, in turn, impose more restrictive requirements upon *members* that perform **attest engagements** for these *lending institutions*. For example, the Securities and Exchange Commission (SEC) proscribes more restrictive requirements over members providing attest services to *lending institutions* and broker-dealers within their purview. [Prior reference: paragraph .07 of ET section 101 and paragraphs .150–.151 of ET section 191]

~~.08 .06~~ **Covered members** may be subject to additional restrictions, as described in the “**Depository Accounts**” interpretation [1.255.010], and the “**Member of a Credit Union**” interpretation [1.280.040], **and the “Leases” interpretation [1.260.040]** of the “**Independence Rule**” [1.200.001].

[See **Revision History Table**]



Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

## 1.270.010 Immediate Family Members [excerpt]

.03 When materiality of a financial interest **or a loan** is identified as a factor affecting independence in the interpretations of the “Independence Rule” [1.200.001], interests of the immediate family member and the covered member should be combined to determine materiality to the *covered member*.

**[See Revision History Table]**



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