



Professional Ethics Division

Exposure draft:
Proposed revisions related to officers, directors, and
beneficial owners

Revised "Offering or Accepting Gifts or Entertainment interpretations (1.120.010 and 1.285.010)
Revised "Conceptual Framework for Members in Public Practice" (1.000.010)

June 3, 2022

Comments are requested by July 5, 2022

ethics-exposedraft@aicpa.org

Invitation to comment

June 3, 2022

If you're an AICPA member or someone interested in the ethics of auditing and accounting, we want to hear your thoughts on this ethics exposure draft.

The proposed changes are part of the AICPA Professional Ethics Executive Committee's (PEEC's) project to update thresholds to better reflect where threats exist.

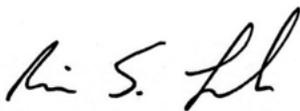
This exposure draft is an explanation of the proposed revisions to the code and the text of the guidance being considered.

After the exposure period concludes and PEEC has evaluated the comments, PEEC may decide to publish the revised interpretations.

Your comments are an important part of the standard-setting process. Please take this opportunity to comment. Responses must be received at the AICPA by July 5, 2022. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at www.aicpa.org/peecprojects. PEEC will consider comments at its subsequent meetings

Please email your comments to ethics-exposedraft@aicpa.org. Alternatively, you can submit comments via our online form at aicpa.org/ethicscomments.

Sincerely,



Brian S. Lynch
Chair, Professional Ethics Executive Committee



Toni Lee-Andrews, CPA, PFS, CGMA
Director, Professional Ethics Division

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Explanation of the proposed revisions related to officers, directors, and beneficial owners

Overview

1. As part of the recent [loans, acquisitions, and other transactions](#) project, PEEC revised several interpretations in the AICPA Code of Professional Conduct (the code) to update the threshold that defines where threats exist with ownership interests.

2. The phrase

an officer or director of an attest client or an individual owning 10 percent or more of the attest client's outstanding equity securities or other ownership interests

is now

an officer or director of an attest client with the ability to affect decision-making and any individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client.

3. PEEC believes this new threshold better reflects where threats exist.

4. To align with the new threshold, three additional interpretations need revision; PEEC is exposing these revisions for comment:

a. Revised "Offering or Accepting Gifts or Entertainment" interpretation (ET sec. 1.120.010)

b. Revised "Offering or Accepting Gifts or Entertainment" interpretation (ET sec. 1.285.010)

c. Revised "Conceptual Framework for Members in Public Practice" interpretation (ET sec. 1.000.010)

Effective date

5. PEEC recommends an effective date of December 31, 2022, with early implementation allowed. This aligns the effective date of these revisions with the effective date of revisions from the loans, acquisitions, and other transactions project.

Request for comments

6. PEEC welcomes comments on all aspects of the proposed revised interpretations.

7. In addition, PEEC would like to hear from interested parties on the following:

- a. Are there other interpretations or guidance in the code with thresholds that should be updated to better reflect where threats exist?
- b. Do you agree that the recommended effective date provides adequate time to implement the proposals? If you disagree, please explain why.

Proposed additions appear in ***bold italic text***. Deletions appear in ~~strikethrough~~.

1.120.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, a client includes the client, an individual in a key position with the client, or an individual ~~owning 10 percent or more of the client's outstanding equity securities or other ownership interests~~ ***with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client.***

[Paragraphs .02–.06 are unchanged.]

1.285.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, the attest client also includes an individual in a key position with the attest client and individuals ~~owning 10 percent or more of the attest client's outstanding equity securities or other ownership interests~~ ***with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client.***

[Paragraphs .02–.06 are unchanged.]

1.000.010 Conceptual Framework for Members in Public Practice

[Paragraphs .01–.10 are unchanged.]

.11 Advocacy threat. The threat that a member will promote a client's interests or position to the point that his or her objectivity or independence is compromised. Examples of advocacy threats include the following:

- a. A member provides forensic accounting services to a client in litigation or a dispute with third parties.
- b. A firm acts as an investment adviser for an officer **or**, a director **of the client with the ability to affect decision-making**, or a ~~10-percent shareholder of a client~~ **an individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client**.
- c. A firm underwrites or promotes a client's shares.
- d. A firm acts as a registered agent for a client.
- e. A member endorses a client's services or products.

.12 Familiarity threat. The *threat* that, due to long or close relationship with a *client*, a *member* will become too sympathetic to the *client's* interests or too accepting of the *client's* work or product. Examples of familiarity threats include the following:

- a. A *member's immediate family* or *close relative* is employed by the *client*.
- b. A *member's* close friend is employed by the *client*.
- c. A former *partner* or professional employee joins the *client* in a *key position* and has knowledge of the *firm's* policies and practices for the *professional services* engagement.
- d. Senior personnel have a long association with a *client*.
- e. A *member* has a significant close business relationship with an officer **or**, a director **of the client with the ability to affect decision-making**, or a ~~10-percent shareholder of a client~~ **an individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client**.

[Paragraphs .13–.24 are unchanged.]



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