



Professional Ethics Division

New and revised interpretations related to

Fees

ET sec. 1.230.030, 1.230.040, 1.210.010, and 1.224.010

Effective January 1, 2025

Standards-setting

September 2023

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 two new interpretations and revisions to two interpretations at its August 2023 meeting:

- New
 - Determining Fees for an Attest Engagement (ET sec. 1.230.030)
 - Fee Dependency (ET sec. 1.230.040)
- Revised
 - Conceptual Framework for Independence (ET sec. 1.210.010)
 - Client Affiliates (ET sec. 1.224.010)

Notice of the revisions will appear in the *Journal of Accountancy* online in September 2023. The revisions are effective January 1, 2025, and early implementation is allowed.

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Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" ([ET sec. 0.400](#))

1.230.030 Determining Fees for an Attest Engagement

- .01 Determining the fees to be charged to an *attest client*, whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.
- .02 The provision of other services to an *attest client* is not an appropriate consideration in determining the *attest engagement fee*, except as provided for in paragraph .03. If a *covered member* responsible for determining the attest engagement fee allows the *attest engagement fee* to be influenced by the firm's provision of other services to an *attest client*, the self-interest and undue influence *threats* to the *covered 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*. Accordingly, *independence* would be *impaired*.
- .03 When determining the *attest engagement fee*, the *covered member* responsible for determining the *attest engagement fee* may take into consideration the cost savings achieved as a result of experience derived from the provision of other services to an *attest client*.

1.230.040 Fee Dependency

- .01 When the total fees generated in any year from an *attest client* by the *firm* represent a large proportion of the total fees of that *firm*, the dependence on and concern about the potential loss of fees from attest and other services from that *client* affect the level of the self-interest *threat* and create an undue influence *threat* to a *covered member's independence*.
- .02 In calculating the total fees of the *firm*, the *covered member* should include fees from attest and nonattest services and might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate. For purposes of this calculation, the *covered member* is not required to include fees from attest and nonattest services of other *network firms* within the *firm's network*.
- .03 When the *attest client* is a *financial statement attest client*, the *covered member* should include fees from entities described under item (a) of the definition of *affiliate*.
- .04 When, for each of five consecutive years, total fees from an *attest client* represent or are likely to represent a large proportion of the total fees received by the *firm*, *threats* to the *covered member's* compliance with the "Independence Rule" [1.200.001] would not be at an *acceptable level* and *independence* would be *impaired* unless one of the following *safeguards* is applied:
- a. Prior to the attest report being issued for the fifth year, an appropriate reviewer who is not a member of the *firm* issuing the report reviews the fifth year's attest work.
 - b. After the attest report on the fifth year has been issued, and before the attest report is issued on the sixth year's *attest engagement*, an appropriate reviewer who is not a member of the *firm* issuing the report reviews the fifth year's attest work.
- .05 If the total fees described in paragraph .04 continue to represent a large proportion, the *covered member* shall, each year, apply one of the *safeguards* in paragraph .04a or .04b.
- .06 When two or more *firms* are engaged to conduct an *attest engagement*, the involvement of the other *firm* in the *attest engagement* may be regarded each year as an action equivalent to that in paragraph .04a if
- a. the circumstances addressed by paragraph .04 apply to only one of the *firms* performing the *attest engagement* and
 - b. each *firm* performs sufficient work to take full individual responsibility for the report.

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

1.210.010 Conceptual Framework for Independence

[Paragraphs .01–.15 are unchanged.]

.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 the *attest client*. [1.260.010]
- c. A *member* or his or her *firm* relies excessively on ~~revenue~~ ***fees from attest and nonattest services*** from a single *attest client*. **[1.230.040]**
- d. A *member* or *member's firm* has a material joint venture or other material joint business arrangement with the *attest client*. [1.265]

.17 *Self-review threat*. The *threat* that a *member* will not appropriately evaluate the results of a previous judgment made, or service performed or supervised by the *member* or an individual in the *member's firm* and that the *member* will rely on that service in forming a judgment as part of an *attest engagement*. Certain self-review *threats*, such as preparing *source documents* used to generate the *attest client's financial statements* [1.295.120], pose such a significant self-review *threat* that no *safeguards* can eliminate or reduce the *threats* to an *acceptable level*.

.18 *Undue influence threat*. The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. Management threatens to replace the *member* or *member's firm* over a disagreement on the application of an accounting principle.

- b. Management pressures the *member* to reduce necessary audit procedures in order to reduce audit fees.
- c. The *member* receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]
- d. ***A large proportion of fees charged by the firm to an attest client is generated by providing nonattest services.***

[Paragraphs .19–.23 are unchanged.]

1.224.010 Client Affiliates

[Paragraph .01 is unchanged.]

.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* or
 - 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*.
- 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” **only** 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.
- g. For purposes of applying the “Fee Dependency” interpretation [1.230.040], fees from entities described under items (b)–(l) of the definition of affiliate are not required to be included when calculating the total fees generated from a financial statement attest client. When the covered member knows, or has reason to believe, that a relationship or circumstance involving any of the entities described under items (b)–(l) of the definition of affiliate is relevant to the evaluation of a fee dependency, the covered member shall include that affiliate when identifying, evaluating, and addressing threats related to fee dependency.**

[Paragraphs .03–.14 are unchanged.]

Acknowledgments

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