

**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
DIVISION OF PROFESSIONAL ETHICS
PROFESSIONAL ETHICS EXECUTIVE COMMITTEE
OPEN MEETING MINUTES
FEBRUARY 9-10, 2017
SAN JUAN, PR**

The Professional Ethics Executive Committee (Committee) held a duly called meeting on February 9-10, 2017. The meeting convened 9 a.m. and concluded at 4:53 p.m. on February 9th and reconvened at 8:00 a.m. and concluded at 8:40 a.m. on February 10th.

<p><u>Attendance:</u> Samuel L. Burke, Chair Coalter Baker Carlos Barrera* Stanley Berman Michael Brand Tom Campbell Robert E. Denham* Anna Dourdourekas Janice Gray</p>	<p>Greg Guin* Brian S. Lynch William Mann Andrew Mintzer* Jarold Mittleider Steven Reed James Smolinski Laurie Tish Shelly Van Dyne Blake Wilson</p>
<p><u>Staff:</u> Lisa Snyder, Director James Brackens, VP - Ethics & Practice Quality Jason Evans, Sr. Technical Manager Ellen Gorla, Sr. Manager Independence & Special Projects</p>	<p>Shelley Truman, Coordinator Brandon Mercer, Technical Manager* April Sherman, Technical Manager* Shannon Ziemba, Technical Manager* James West, Technical Manager* Michele Craig, Technical Manager* Liese Faircloth, Technical Manager*</p>
<p><u>Guests:</u> Jeff Lewis, Chair, Independence/Behavioral Standards Subcommittee Ian Benjamin, Chair, Technical Standards Subcommittee Kelly Hnatt Nancy Miller, KPMG William McKeown, KPMG Dan Dustin, VP State Board Relations, NASBA Catherine Allen, Audit Conduct Sonja Araujo, PwC Vince DiBlanda, Deloitte David L. Patrick (For the first 3 items)</p> <p style="text-align: right;">*Via Phone</p>	

1. Entities Included in State and Local Government (SLG) Financial Statements

Ms. Miller explained that the Task Force was able to simplify the proposed revised interpretation by identifying the entities that members need to be independent of and requiring a conceptual framework evaluation for relationships with other entities that come to the member's attention. She noted that since the new GASB 84 changes the governmental reporting structure relative to fiduciary funds, including benefit plans, the interpretation does not need to address these separately. She explained that the Task Force is drafting a number

of FAQs and visual aids to assist with the overall implementation of the interpretation and some of the FAQs will specifically highlight benefit plans.

Ms. Miller explained that when looking “downstream,” the Task Force’s starting point is the applicable reporting framework. By using the applicable reporting framework as the first cut, the proposed interpretation scopes in some excluded entities that were not addressed in the extant interpretation. She explained that in addition to the applicable reporting framework, there are two main concepts that are included in the interpretation: (1) does the primary government have more than minimal influence over the accounting or financial reporting process of the fund or component unit and (2) is the fund or component unit material to the primary government. Ms. Miller then explained each situation where the Task Force believes independence should be required when looking downstream.

A member asked if the “more than minimal influence” criteria would require an analysis that is not already required. Two members of the Committee who practice in the State and Local Government (SLG) arena noted that they believe these concepts are already being dealt with and would likely be part of the audit planning process so these are not new concepts to practitioners in this industry.

Ms. Miller went on and explained how the “upstream” guidance would work. She noted that trying to find the words to describe the entity that has more than minimal influence over the client proved to be challenging. She noted that some members of the SLG Expert Panel read the guidance to mean the “legal entity”. Ms. Miller explained that the Task Force believes the legal entity is too broad. For example, if a member’s financial statement attest client is a pension plan, and the state meets the more than minimal influence criteria, if the entire state was scoped in then any bonds issued by the state would be restricted investments.–Ms. Miller explained that was not the intention and so the Task Force is hoping to receive feedback during exposure to clarify. One member asked if one way to solve the issue would be to use paragraph .10, the conceptual framework evaluation, to cover upstream situations. Another member countered and suggested instead of paragraph .10, which would only require a conceptual framework evaluation when a relationship or circumstance comes to the member’s attention, that an evaluation under the conceptual framework be required. This member went on to explain that the criteria in paragraph .09 would remain (i.e., more than minimal influence and materiality) but would require that any relationships or circumstances that the member has with this entity be evaluated using the Conceptual Framework for Independence. This would allow the member to use professional judgement to determine the extent of the threats and impact the safeguards would have. The Committee was supportive of this approach.

Ms. Miller went on to explain the investment proposal. She noted that the Task Force has received feedback that this could present operational difficulties when implementing because of the frequent investment changes. To help with this, the Task Force is proposing a de minimis concept (less than immaterial) be incorporated.

After some discussion, it was agreed that the Task Force should come back with a proposal in May that is ready for exposure and to:

- Draft the basis for the proposed revisions and incorporate the visual aids and information currently contemplated to be included in the FAQs as examples to help explain the basis for the revisions.
 - Draft an impact analysis.
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- Include questions in the exposure draft that would solicit feedback on whether the “more than minimal influence” concept is clear and if it is creating a new concept.

2. **Non-compliance with Laws and Regulations (NOCLAR) Task Force**

Mr. Denham introduced the topic noting that the Task Force was requesting the PEEC approve the proposed draft interpretations for exposure for comment. Mr. Denham reviewed some of the specific topics of significance within the exposure draft.

A committee member noted that the draft interpretation for members in public practice did not permit a predecessor auditor to disclose a NOCLAR to a successor auditor without the client’s permission. The member further inquired as to the “red flag” noted in the agenda alerting the successor auditor to a potential issue. Mr. Evans and another member of the PEEC explained that it would be a red flag if the predecessor auditor was not granted permission by the client to disclose confidential information to the successor auditor and that the successor auditor must consider this situation before accepting a new client.

Mr. Denham reviewed certain key decisions of the PEEC concerning the proposed interpretations noting the specific documentation requirement included in the proposed NOCLAR interpretation for members in public practice. Some PEEC members expressed concern about the documentation requirement stating that it may be missed by members performing non-attest services. Further, it was questioned whether a documentation standard positively contributes to the public interest. The PEEC agreed to include a specific question concerning the respective documentation requirement within the exposure draft.

Mr. Denham noted a suggestion that the reference in the interpretation to the Confidential Client Information Rule should include an explanation as to why the respective rule was being specifically identified. Ms. Gorla responded noting that the accepted drafting conventions of the Code do not include explanations of references. It was concluded that it could potentially be appropriate to include the reference to the Confidential Client Information Rule in multiple paragraphs. Mr. Evans voiced a preference to include an overarching reference at the beginning of the interpretation. Ms. Hnatt agreed, explaining that a user could conclude that the Confidential Client Information Rule applies only to the specific paragraph in which it is addressed rather than to the interpretation as a whole. The PEEC agreed to include the reference once, at the beginning of the interpretation with the intention of applying the reference to the entire interpretation.

Ms. Snyder questioned whether the interpretation is practicable if the member in public practice is engaged to perform a professional service over a short period, for example, for a two week non-attest engagement with no planned future relationship with the client. A member of the committee stated that the interpretation may not be practicable in that situation and may put members at legal risk in that they may not be able to fulfil the expectations created by the draft interpretation. Another member of the PEEC noted that in their firm, if a NOCLAR were noted during a two week engagement, the member would seek guidance from their legal department. Another member noted that in the two-week-engagement scenario, it would be in the public interest to attempt to follow the guidance in the proposal, however, management may not respond to the inquires of the member. Ms. Hnatt replied stating that if management does not reply, it does not mean that the member did not comply with the interpretation.

A member questioned whether the guidance should cover members in public practice that perform non-attest services. The member further noted that the guidance places members at

a competitive disadvantage to those that do not have to follow the Code. Ms. Snyder replied by stating that the IESBA considered the same issue. The IESBA concluded that it would still be in the public interest for those not bound by the Code to bring a NOCLAR to the attention of the client's management. Another member noted that non-CPAs not bound by the Code may be exposed to law suits if they do not disclose a NOCLAR based on the fact that they are not bound by State Board confidentiality laws, thus, there is balance.

It was moved, seconded and unanimously approved to expose the proposed interpretations for comment.

3. Information Technology and Cloud Services

Mr. Patrick explained that he is concerned that the Committee would conclude that a member is providing hosting services that would impair independence when a member takes possession of an attest client's data or records to perform a nonattest service, especially when the underlying application he is using to provide those nonattest services will generate data files. To help make his point, he provided an example where his attest client would provide him with an approved invoice so that he could post the necessary entry and create the necessary check for the attest client. In this scenario he would be in possession of the approved vendor invoice, a record of the attest client, as well as the general ledger data file and check, both of which would be the attest client's data and records.

A member of the Committee noted that he believes hosting services would involve a member becoming responsible for the internal controls over the records or data and not just taking possession to provide a professional service. Ms. VanDyne explained that when exposed, the proposal used the notion of custody or control but commenters believed this to be unclear and so replaced it instead with a responsibility notion.

The Committee discussed at length the bookkeeping scenarios presented in the proposed frequently asked question (FAQ) document, especially the caveat concerning the location of the general ledger (i.e., on the attest client's servers, on a third party vendor's servers or on servers owned or leased by the member). A straw poll was taken and unanimously carried that when the general ledger is housed on *only* the firm's servers or servers leased by the member, that the member would be providing hosting services. The Committee directed Staff to ensure that this point would be highlighted. The Committee also agreed that the Task Force should prepare a basis for conclusions document and incorporate the points made in the draft FAQs into the basis document.

Ms. VanDyne reported that the Task Force had made progress with the strawman and had not made a cut based on the size of the Commercial Off-The-Shelf (COTs) products. Due to time constraints, the Committee did not get to discuss the Information Systems Services strawman but was asked if there was any feedback on the Task Force's direction. In response to a question, Ms. VanDyne noted that the reason why so much of the guidance keyed in on COTs was because a non-COTs system would likely involve the member providing some level of design or development which would impair independence. She also noted that the Task Force has yet to conclude whether the guidance should continue to permit the member to make insignificant modifications to source code underlying the attest client's existing financial information system. The Task Force was asked to discuss the impact these services have on internal control, especially with respect to configuration services.

Ms. Gorla asked the Committee to email her with any scenarios in which they believe data conversions could be done without having to manipulate the data from the old system in order for the new system to accept it.

4. Leases

Mr. Wilson presented the Leases Task Force agenda item to the Committee. Mr. Wilson explained that the Task Force previously brought proposed revisions to PEEC that reflected a more conceptual approach to leases, eliminating the concept of GAAP lease categorization from the guidance and taking a more principles based approach. Mr. Wilson presented highlights of the Task Force's discussions, and presented two additional revision options prepared by the Task Force (Options B and C below) for PEEC consideration.

Option B – Conceptual Approach to All Leases with Minimum Requirements

Option B states that all leases should be evaluated using a threats / safeguards approach, while leases that do not meet certain minimum requirements would impair independence. The thresholds for impairing independence (i.e. minimum requirements) noted in Option B are:

- a. *Terms and conditions set forth in the lease are not comparable with other leases of a similar nature*
- b. *Any amounts are not paid in accordance with the lease terms or provisions*
- c. *The lease is material to the covered member or the attest client.*

Mr. Wilson explained that Option B addressed several issues previously raised by the PEEC; additionally the Task Force raised other issues with Option B. Mr. Wilson noted that the Task Force's discussions regarding these issues led to the creation of a revision Option C, which takes a "guided" Conceptual Framework approach to leases by providing factors to consider in evaluating all leases.

Safe harbor for immaterial leases

Mr. Wilson explained that the restructuring of paragraph .01 of Option B removed a perceived safe harbor for immaterial leases in the prior proposal, in that any immaterial lease meeting the minimum requirements (a-c) would be allowed. Mr. Wilson explained that under the new structure of paragraph .01, there is no safe harbor as the conceptual framework approach applies to all leases; immaterial leases would be subject to further evaluation without a bright line safe harbor for those leases. There was no further discussion on this issue.

Normal Course of Business and Arm's Length Transactions

Mr. Wilson noted that previously, PEEC had discussed potentially using the term "normal course of business" to reference leases that are entered into at arm's length and for legitimate business reasons. PEEC and the Task Force previously noted concerns surrounding consistency of the use of the term with other regulators and approved bodies, whether the lease is at higher risk of not being at arm's length because if the lessor is not in the business of leasing, and the lack of availability of other parties' leases to compare terms and conditions. The Task Force noted that the conceptual framework approach considers whether the transaction is at arm's length by considering the self-interest, undue influence, and familiarity threats caused transactions that are not at arm's length.

Mr. Wilson noted that the Task Force contemplated whether the perceived risk of a lease being at less than arm's length would be mitigated if the standard required leases to be with a lending institution. It was noted that automobile leases are part of a lending institution's

operations under the AICPA Code definition of lending institutions. One PEEC member noted that the lending institution leases are limited to automobile leases in the definition, and office leases are typically held with a real estate investment trust (REIT) or another entity that is not a lending institution. Therefore, limiting the guidance to leases with lending institutions would not be appropriate for leases in general. There was no disagreement on this point from other PEEC members.

Mr. Wilson posed the question to PEEC of whether the guidance should explicitly use the term “at arm’s length” in the interpretation to address the primary concern of leases being in the normal course of business and not “sweetheart deals” that threaten independence. Mr. Cahill (Task Force member) noted that there are certain limitations to how far an auditor can go to say a contract is at arm’s length, and expressed concern that this may be an unattainable requirement. One PEEC member noted further that if other leases are done in a different market, comparability may not be enough, while “arm’s length” would scope in all things to be considered. Another PEEC member noted that the term “arm’s length” refers to the process of establishing the lease (process-focused), while the concept of comparing the ultimate terms/conditions is outcome focused; for this reason, the member favored referring to comparability of terms/conditions rather than to arm’s length transactions. Another PEEC member noted that another way to ask the question is to ask what the unusual benefit is of a transaction that is not at arm’s length. In concluding the discussion, a PEEC member recommended replacing the requirement regarding comparability with the phrase “on market terms and established at arm’s length.” There was no disagreement from the PEEC on the recommended terminology:

- a. The terms and conditions set forth in the lease agreement are **on market terms and established at arm’s length** ~~comparable with other leases of a similar nature.~~

Materiality – Implicit or Explicit inclusion as a Requirement

Mr. Wilson noted that PEEC previously indicated that materiality is a factor in the independence threats related to a lease, but that the Task Force has concerns that materiality as a bright line test may not lead to the correct conclusion. In this regard, the Task Force was concerned about whether the materiality evaluation should be implied by use of the conceptual framework approach or should be explicitly noted in the guidance as a requirement (i.e. a bright line test). Mr. Wilson noted an example where a material lease is held by a covered member who is not connected to the engagement team, and questioned whether the conclusion that no safeguards can be applied is the correct conclusion. Mr. Wilson further noted that the conceptual framework approach would not be available for those covered members because the lease would be material, regardless of the connection of the covered member to the engagement. One PEEC member noted that a building lease could have very different materiality for a small firm versus a large firm; other members noted that economies of scale do impact materiality, but that there cannot be a different path for analysis for firms based on their size. After brief discussion of other issues noted below, PEEC determined that materiality should not be included as a minimum requirement but should be a factor of consideration in evaluating the threats created by a lease.

Limiting Requirements to Certain Covered Members

Mr. Wilson questioned whether the guidance should be limited to certain covered members that are connected to the engagement. One member agreed that materiality and other considerations are different for those connected to the engagement. Another member noted that the real threat surrounds entering into the lease, rather than the existence of a lease, and wondered if the PEEC should look at a conceptual framework approach that is based on the

individual and entering into the lease. Another member questioned what would happen if the building a member/firm occupies is purchased by an attest client.

Several members agreed that the threat to independence is lower for some covered members than others. Ms. Miller (Task Force member) noted that the IESBA Code addresses business relationships, and limits those requirements to certain members connected to the engagement, an approach that she supports. Ms. Miller also noted that other areas of the Code limit certain provisions to specific covered member categories. Ms. Snyder noted that the IESBA Code does not specifically address leases nor does it explicitly include leases in the IESBA guidance regarding business relationships. During discussion of other matters noted below, a PEEC member suggested that the Task Force move toward limiting requirements to certain covered members similar to the IESBA's business relationships guidance. It was noted that a "sweetheart deal" may not impact the engagement team, but may be more of an appearance issue.

Mr. Wilson noted that the Task Force had additional concerns regarding the automobile lease inconsistency if materiality is an explicit requirement in that automobile leases with lending institutions are not subject to materiality evaluation. One member noted he did not think this was a concern, and there was no further discussion of the issue.

Option C – Guided Conceptual Framework Approach

Pursuant to previous Task Force discussions regarding Option B and whether materiality should be explicit, Mr. Wilson presented an additional option (Option C) to PEEC for consideration. Under Option C, a conceptual framework approach is applied to all leases (excluding automobile leases), and provides examples of factors that members should consider when evaluating the significance of threats to independence as shown below:

.02 Examples of factors the covered member should consider in evaluating the significance of threats to independence include the following:

- a. the covered member's role on the engagement team;*
- b. materiality of the lease to the covered member;*
- c. materiality of the lease to the attest client or the financial statements;*
- d. whether the lease terms and conditions are established at arm's length;*
- e. whether all amounts are paid in accordance with the lease terms;*
- f. the extent to which the lease will be subject to attest procedures or financial statements disclosures*
- g. [****any other items the committee deems to be important****]*

Mr. Wilson explained that in addition to maintaining the preferred conceptual approach, Option C does not include materiality as a bright line test but includes it as a factor in evaluating the significance of the threat. Ms. Miller (Task Force member) questioned whether, for an immaterial lease, it raises less concern about a "sweetheart deal," but felt that the factors should be evaluated both individually and cumulatively. Ms. Miller also noted that there is likely no one-size-fits-all approach. One PEEC member expressed preference for a combination of Options B and C, in which there are the minimum requirements in Option B ("a", "b" only) combined with examples of the factors to consider in Option C. Ms. Miller recommended utilizing factors "d" and "e" above as hurdles that apply to the firm and the covered member, and then the guided conceptual approach contemplated in Option C would apply if those hurdles are met. There was no objection to this approach to the guidance.

Ms. Snyder asked the Committee if item “d” in paragraph .02 should be required in order to remain independent, and one member responded that it should be required, along with item “e” regarding compliance with payments under the lease. These are also the requirements “a” and “b” noted in Option B. Ms. Snyder also recommended revising item “a” to state “...*whether the covered member is a member of the engagement team.*”

Naming of specific threats to independence

Mr. Wilson noted that both Option B and Option C include the specific threats identified by the Task Force as existing when there is a lease between a covered member and the attest client as follows:

.01 If during the *period of the professional engagement*, a covered member has a lease or leases with an attest client, self-interest, familiarity, and undue influence threats to the covered member’s compliance with the “[Independence Rule](#)” [1.200.001] may exist...

One member did not believe the existence of the familiarity threat and undue influence threat were obvious, but was not against their inclusion. Staff explained that the familiarity threat was due to the fact that the lease is an additional contractual relationship between the parties and adds a layer of potential familiarity that can exist prior to, as well as during, the period of professional engagement. Mr. Cahill (Task Force member) noted that the Task Force included the phrase, “any other threats” to ensure that other potential threats are considered. There was no objection to inclusion of the other threats and was no further discussion on the issue.

Possible Exceptions

One PEEC member expressed concern that some covered members live in apartments or other residential rentals that are owned by a REIT or other investment vehicle that is an attest client of the firm. The member noted that if an attest client buys an apartment building in which a covered member lives, the covered member should not have to move their personal residence to maintain independence. Another PEEC member noted that he was in favor of treating apartments and automobiles covered by the Loans Interpretation as “carve outs” not subject to the Leases Interpretation requirements. The Task Force agreed to discuss this issue in its future discussions.

There being no further topics, the Leases Task Force agreed that it would take the points made by PEEC into consideration, and tentatively planned to have a draft for exposure to membership at the next PEEC meeting.

5. IESBA Update

Ms. Snyder introduced the topic providing an update of the activities of the Part C Task Force. At the December meeting of the IESBA, the Board approved to expose a revised description of a professional accountant in business and revised provisions on how Part C applies to professional accountants in public practice. The exposure draft was released in January with comments due on April 25, 2017. Also at the previous meeting, the Board considered the first draft of amendments to Section 350, Inducements.

Mr. Evans provided an update of the Long Association Task Force. The Board approved the changes to the Long Association guidance in response to comments made by the Public Interest Oversight Board (PIOB). The changes pertained to the jurisdictional provisions providing cooling off periods to partner rotation and consultation of the engagement partner or engagement quality control reviewer during the cooling off period. The guidance is effective

for financial statements beginning on or after December 15, 2018 with the exception of the jurisdictional provision which will be effective for periods beginning prior to December 15, 2023.

The Structure of the Code Task Force agreed in principle to the text of the guidance in the first exposure draft, subject to any changes that may be necessary as a result of the second exposure draft. The Phase 2 exposure draft was approved by the Board, which contains corresponding changes to other sections of the Code based on the drafting agreed to in Phase 1 of the project. The Board anticipates approval of both phases by the end of 2017.

Mr. Evans provided an update of the Safeguards Task Force noting that the IESBA agreed to the text of the literature in Phase 1, in principle. The guidance contained in Phase 2 was approved for exposure at the December meeting. The comments are due on April 25, 2017. This exposure draft contains edits to the non-assurance service guidance based on the enhanced text provided in Phase 1 of the project.

The IESBA considered a proposal for a short-term project concerning professional scepticism. This project began in response to stakeholders calling for greater emphasis on professional scepticism in the Code. The proposed enhancements discussed included a new requirement for professional accountants to apply a critical mindset when applying the conceptual framework and new application material linking professional scepticism as defined by the International Audit and Assurance Standards Board, the fundamental principles and independence.

The IESBA considered an update from the Fees Working Group concerning fee related laws and regulations in G20 jurisdictions. The Working Group will be reaching out to stakeholders to further understand their perspectives on fee related issues.

6. Minutes of the Professional Ethics Executive Committee Open Meeting

It was moved, seconded and unanimously carried to approve the minutes from the November 2016 open meeting.

7. Cybersecurity Services

Ms. Tish presented FAQ's that were approved by the Task Force and explained that one of the cybersecurity services that members are performing for clients involve configuring a client's information system to reflect changes made to the client's cybersecurity program. It was explained that the Task Force did not reach a consensus regarding whether or not independence would be impaired if the member provided such services as some members believe these activities would result in a member accepting responsibility for implementing the client's internal controls that would impair independence while others believed such activities are comparable to IT services where the member reconfigures existing systems controls to meet established standards that have been approved by the client. That is, the answer could depend upon whether the configuration involved designing or developing the internal controls and if there was an impact on the financial statements.

It was noted that the Information Technology and Cloud Services Task Force is analyzing implementation services which includes configuration services. As such, the Committee agreed it would be prudent for Staff to hold off issuing "FAQ 2b" until the Information Technology and Cloud Services Task Force has concluded its work.

Ms. Tish was asked to consider if the pre-existing project management FAQ should be clarified to confirm that when it comes to a member providing project management services, the member is always responsible for the management of its own professional service.

8. Transfer of Files and Return of Client Records in Sales, Transfer, Discontinuance or Acquisition of Practice

Ms. Snyder explained that the hypothetical situation presented for consideration was whether the requirements of the Transfer of Files and Return of Client Records in Sales, Transfer, Discontinuance or Acquisition of Practice interpretation would need to be complied with when one firm (Firm A) is acquired by another firm (Firm B) and only some of the partners from Firm A became partners of Firm B. She further explained that the Task Force agreed that the intent of the interpretation was that if at least one partner from Firm A would become a partner in Firm B, the requirements of the interpretation did not apply. Some concern, however, was raised that the Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of Practice interpretation was inconsistent with the Confidential Client Information Rule. Specifically, the interpretation seemed to allow a member to disclose confidential client information to the owners of the successor firm (without client consent) provided the member retained an ownership interest in the successor firm. In an effort to clarify that the member would not be in violation of this rule when complying with the interpretation, the following FAQ was drafted by Staff:

TRANSFER OF CLIENT FILES IN A MERGER

Question: The “Confidential Client Information Rule” does not prohibit the review of a member’s professional practice, which, per the “Disclosing Client Information in Connection with a Review or Acquisition of the Member’s Practice” interpretation, includes a review performed in conjunction with a prospective purchase, sale, or merger of all or part of a member’s practice. Would the “Confidential Client Information Rule” prohibit a member from disclosing confidential client information to the owners of the successor firm after the consummation of such a purchase, sale, or merger?

Answer: The “Confidential Client Information Rule” would not prohibit the member from disclosing confidential client information to the other owners of the successor firm after the purchase, sale, or merger of all, or part of, a member’s practice, provided the member retains an ownership interest in the successor firm and complies with the requirements of the “Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice.”

The Committee agreed that this FAQ was consistent with its discussions.

A member of the Committee confirmed that the interpretation covered both complete sales and partial sales of a practice and that if no partners went to the new firm, the requirements within the interpretation would apply. This member also noted that he believed paragraph .01 was inconsistent with paragraph .05. Specifically, this member noted that while both paragraphs require the client consent to its files or records being retained by the new firm, paragraph .05 adds in an additional requirement, that the client retain the successor firm to provide services. It was agreed to discuss this concern with the Task Force to see if the following editorial revision to paragraph .05 was appropriate:

.05 A member who acquires all or part of a practice from another person, *firm*, or entity (predecessor firm) should be satisfied that all clients of the predecessor firm subject to the acquisition have, consented to the **transfer of its** ~~member’s continuation of professional services and retention of any client files or records~~ **to** the successor firm retains.

9. Compilation of Pro-Forma Financial Information and Specified Procedures Engagements

Mr. Brand explained that the Task Force had been asked to consider if the modified independence approach currently contained in the Code for SSAE engagements, should be applicable for compilations of pro-forma financial statements performed under the SSARS and specified procedures engagements that are currently under development. He explained that to answer this question, the Task Force considered the basis for the modified independence approach and determined that it appeared to be based upon whether the report was restricted in use and if the engagement was performed under the SSAEs. Mr. Brand reported that the Task Force is thinking that perhaps the basis for whether the modified independence approach would be appropriate should be aligned to factors that could be applied consistently to any service that may be developed down the line, such as the level of assurance and whether the report is restricted. He noted that the Task Force plans to also consider the approach taken by the IESBA which requires certain steps and communications be made in order to apply the modified independence approach.

10. IESBA Convergence – Long Association

Mr. Evans noted that the IESBA approved for adoption the guidance concerning Long Association. Mr. Evans explained the guidance as it related to all clients, both PIEs and non-PIEs. Mr. Evans also noted the final enhancements made to the guidance based on the comments of the PIOB.

It was recommended by Mr. Evans that the PEEC agree to charge a task force with reviewing the IESBA standard entitled, Long Association of Personnel with an Audit or Assurance Client and recommend to PEEC revisions to the AICPA Code for purposes of convergence.

A member inquired as to the IESBA guidance for PIEs. Mr. Evans explained the terms for partner rotation and further stated that the PEEC should not consider the guidance for adoption, as, the SEC has more restrictive rules pertaining to partner rotation for PIEs located in the United States.

The PEEC agreed to form and charge a task force as suggested.
