



Professional Ethics Executive Committee

Open meeting agenda

February 16–17, 2022
Virtual

Open meeting agenda — February 16–17, 2022

Professional Ethics Division
Professional Ethics Executive Committee

Phone access: +1 646 876 9923 (US toll) or +1 301 715 8592 (US toll)

Meeting ID: 964 6483 7974 | **Web access:** <https://aicpa.zoom.us/j/96464837974>

International numbers available: <https://aicpa.zoom.us/u/aMrxtyOb3>

Observers must register: www.aicpa.org/peecmeeting

February 16

10:00–10:05 EST	Welcome Mr. Lynch will welcome the committee members and discuss administrative matters	
10:05–11:05	Noncompliance with laws and regulations The task force will seek adoption of the interpretations.	Agenda items 1A–1E
11:05–11:50	Assisting attest clients with implementing accounting standards The task force will review the comment letters and seek adoption of the interpretation.	Agenda items 2A–2D
11:50–12:35	SEC convergence The task force will review the comment letters and seek adoption of the proposals.	Agenda items 3A–3C
12:35–1:15	<i>Break before afternoon session</i>	
1:15–1:45	Unpaid fees The task force will review the comment letters and seek adoption of the revised interpretation.	Agenda items 4A–4C

1:45–2:25	<p>Compliance audit</p> <p>The task force will seek input on the proposed interpretation and revisions to the code, as well as input on two proposed revisions to the code unrelated to the project.</p>	Agenda items 5A–5E
2:25–2:35	<p>IFAC convergence and monitoring</p> <p>The working group will seek approval to form task forces to determine convergence needs.</p>	Agenda item 6
2:35–2:50	<p>IESBA update</p> <p>Division staff will update the committee on IESBA’s activities and projects and welcomes comments and monitoring concerns.</p>	Agenda items 7A–7H
2:50–3:00	<p>Project update and call for volunteers</p> <p>Division staff will provide an overview of completed projects and solicit volunteers for upcoming projects.</p>	Agenda item 8
February 17		
10:00–10:10	<p>IESBA engagement quality reviewer</p> <p>The task force will provide the committee with an update.</p>	
10:10–10:20	<p>Simultaneous employment or association with an attest client</p> <p>The task force will provide the committee with an update.</p>	
10:20–10:30	<p>IESBA fees</p> <p>The task force will provide the committee with an update.</p>	
10:30–10:35	<p>Information systems services</p> <p>The task force will provide the committee with an update.</p>	

10:35–10:40	<p>Statements on Standards for Tax Services</p> <p>Ms. Saunders will update the committee on the status of this project.</p>	
10:40–11:10	<p>Environmental, Social, and Governance (ESG) presentation</p> <p>Ms. Ami Beers, Senior Director of the AICPA’s Assurance and Advisory team will provide the committee with an overview of ESG activities.</p>	Agenda item 9
11:10–11:15	<p>Approval of November 2021 meeting minutes</p>	Agenda item 10
	<p>Future meeting dates</p> <p>May 17–18, 2022</p> <p>August 3–4, 2022</p> <p>November 10–11, 2022</p>	

Noncompliance with laws and regulations

Task force members

Bob Denham (chair), Sam Burke, Brian Lynch, Bill Mann, Elizabeth Pittelkow, Stephanie Saunders, Lisa Snyder

Observers

Coalter Baker, Dan Dustin, Tom Neill

AICPA staff

Jim Brackens, Michele Craig, Emily Daly, Ellen Gorla, Kelly Hnatt, Toni Lee-Andrews

Task force charge

To develop conforming guidance in response to standards entitled, “Responding to Non-Compliance with Laws and Regulations” (NOCLAR) promulgated by the International Ethics Standards Board for Accountants (IESBA).

Reason for agenda item

To seek adoption of the “Responding to Noncompliance With Laws and Regulations” interpretations (1.170.010 and 2.170.010).

Task force activities

During the November 2021 meeting, the committee agreed to

- include two additional carve outs in the proposed interpretations.
- add clarification that the interpretations would not apply to state and local statutes comparable to IRC code section 7525.
- include equivalent exclusions in the members in business interpretation to the exclusions in the members in public practice interpretation.

Overall, the committee agreed with the task force’s clarifying revisions as well as the rationale for addressing some suggested revisions with nonauthoritative guidance.

Additional exclusion for members in public practice

Deloitte provided the task force with additional feedback about the exclusions specified in paragraph .06 of the proposed members in public practice interpretation. They noted that there are situations in which a member in public practice provides internal audit outsourcing services to nonattest clients.

Deloitte recommended adding, “A matter otherwise subject to the International Standards for the Professional Practice of Internal Auditing,” to the exclusions in paragraph .06 of the

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interpretation for members in public practice for consistency with interpretation for members in business. With the additional exclusion, the paragraph would read as follows:

.06 This interpretation does not apply to the following:

- a. Personal misconduct unrelated to the business activities of the client.
- b. Noncompliance by parties other than by the client or those charged with governance, management, or other individuals working for or under the direction of the client.
 - i) **the client,**
 - ii) those charged with governance,
 - iii) **management, or**
 - iv) **other individuals working for or under the direction of the client.**

This includes, for example, circumstances in which a member has been engaged by a *client* to perform a due diligence assignment on a third-party entity (that is, subject entity) and the identified or suspected noncompliance has been committed by that third party.

- c. A litigation or investigation engagement as defined in AICPA Statement on Standards for Forensic Services No. 1.
- d. ***An engagement where the primary purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.***
- e. An engagement pursuant to which the protections set forth in Internal Revenue Code Section 7525 ***or where any comparable state or local statutes that may apply.***
- f. ***A matter otherwise subject to An engagement performed under the International Standards for the Professional Practice of Internal Auditing.***
- g. ***An engagement where compliance with this interpretation***

would cause a violation of law or regulation.

A [member](#) may nevertheless find the guidance in this interpretation helpful in considering how to respond in these situations.

Question for the committee

1. Does the committee agree with Deloitte's suggestion of an additional exclusion in paragraph 1.170.010.06?

Clarifying revisions

The task force made some clarifying revisions to the proposed interpretations for consistency between the guidance for members in public practice and members in business. Agenda item 1B highlights the changes.

Effective date

The proposed interpretations have an effective date of one year after an announcement is published in the *Journal of Accountancy*. If the committee approves adoption, the effective date will be in the first quarter of 2023, depending on the timing of the announcement. The Auditing Standards Board (ASB) plans to vote for adoption of their NOCLAR standards after PEEC approves adoption of the proposed interpretations.

Question for the committee

2. Does the committee agree that an effective date of one year after the publication of a *Journal of Accountancy* announcement is appropriate?

Action needed

The committee is asked to adopt the NOCLAR interpretations as revised, the definition of *financial statement attest services*, and the "Ethical Conflicts" interpretation as revised with an effective date of one year after publication in the *Journal of Accountancy*.

Communications plan

Task force staff will work with Ms. Mullins to develop an appropriate communications plan.

Materials presented

- Agenda item 1B: Text of proposed interpretations “Responding to Noncompliance With Laws and Regulations” (redline)
- Agenda item 1C: Text of proposed interpretations “Responding to Noncompliance With Laws and Regulations” (clean)
- Agenda item 1D: Text of new proposed *financial statement attest services* definition
- Agenda item 1E: Text of proposed revisions to the “Ethical Conflicts” interpretations

Text of proposed interpretations
“Responding to Noncompliance With Laws and Regulations”
(redline)

(Additions made since the February 25, 2021 exposure draft are presented in ***bold italic*** text. Deletions are presented in ~~strike through~~. Changes made since the November 16, 2021 PEEC meeting are highlighted.)

1.170. Responding to Noncompliance With Laws and Regulations

1.170.010 Responding to Noncompliance With Laws and Regulations

Introduction

- .01** When a member encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of providing a professional service to a client, threats to compliance with the “Integrity and Objectivity Rule” [1.100.001] may exist. The purpose of this interpretation is to set out the member’s responsibilities when encountering such noncompliance or suspected noncompliance and guide the member in evaluating the implications of the matter and the possible courses of action when responding to it. The member’s responsibilities in this interpretation are owed to a person or entity that engages the member or member’s firm to perform professional services (engaging entity). Therefore, when the engaging entity and subject entity are different, the term client refers to the engaging entity.
- .02** Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by those charged with governance, by management, or by other individuals working for or under the direction of a client.
- .03** When responding to noncompliance or suspected noncompliance in the course of providing a professional service to a client, the member should consider the member’s obligations under the “Confidential Client Information Rule” [1.700.001]. For example, a member should not disclose the noncompliance or suspected noncompliance to a third party without the client’s consent unless expressly permitted under the “Confidential Client Information Rule,” such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations or ~~compliance with professional standards~~ ***the “Compliance With Standards Rule” [1.310.001]***, as discussed in paragraphs .04 and .05d., respectively.
- .04** Some regulators, such as the SEC or state boards of accountancy, may have

regulatory provisions governing how a member should address noncompliance or suspected noncompliance which may differ from or go beyond this interpretation. In some circumstances, state and federal civil and criminal laws may also impose additional requirements. When encountering noncompliance or suspected noncompliance, a member has a responsibility to obtain an understanding of those legal or regulatory provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure.

.05 A distinguishing mark of the ~~accountancy~~ **accounting** profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a member are as follows:

- a. To comply with the "Integrity and Objectivity Rule" [1.100.001]
- b. To alert management or, when appropriate, those charged with governance of the client, to enable them to
 - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - ii. deter the commission of the noncompliance when it has not yet occurred
- c. To determine whether withdrawal from the engagement and the professional relationship is necessary, when permitted by law and regulation
- d. **To take such further action as appropriate in the public interest**
- e. To comply with applicable laws, regulations, and professional standards ~~the~~ **"Compliance With Standards Rule"** [1.300.001]

Applicability

.06 This interpretation does not apply to the following:

- a. Personal misconduct unrelated to the business activities of the client.
- b. Noncompliance by parties other than ~~by the client or~~ those charged with governance, management, or other individuals working for or under the ~~direction of the client.:~~
 - i) **the client,**

- ii) [those charged with governance](#),
- iii) *management, or*
- iv) *other individuals working for or under the direction of the client.*

This includes, for example, circumstances in which a [member](#) has been engaged by a client to perform a due diligence assignment on a third-party entity (that is, subject entity) and the identified or suspected noncompliance has been committed by that third party.

- c. A litigation or investigation engagement as defined in the AICPA's Statement on Standards for Forensic Services No. 1.
- d. ***An engagement where the primary purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.***
- e. An engagement pursuant to which the protections set forth in Internal Revenue Code Section 7525 and or any comparable state or local statutes that may apply.
- f. ***~~A matter otherwise subject to An engagement performed under the International Standards for the Professional Practice of Internal Auditing.~~***
- g. ***An engagement where compliance with this interpretation would cause a violation of law or regulation.***

A [member](#) may nevertheless find the guidance in this interpretation helpful in considering how to respond in these situations.

Scope

.07 This interpretation sets out the approach to be taken by a [member](#) who encounters or is made aware of noncompliance or suspected noncompliance with the following:

- a. Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's [financial statements](#)
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's [financial statements](#), but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties

.08 Examples of laws and regulations which this interpretation addresses *may* include those that deal with **these issues**:

- a. Fraud, corruption, and bribery
- b. Money laundering
- c. Securities markets and trading
- d. Banking and other financial products and services
- e. Data protection
- f. Tax and pension liabilities and payments
- g. Environmental protection
- h. Public health and safety

.09 Noncompliance may result in fines, litigation, or other consequences for the client that may have a material effect on its financial statements. Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms.

.10 A member who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

Responsibilities of the Client's Management and Those Charged With Governance

.11 The client's management is responsible, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any noncompliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

Responsibilities of Members in Public Practice

.12 When a member becomes aware of a matter to which this interpretation applies, the member should take timely steps to comply with this interpretation, taking into account the member's understanding of the nature of the matter and the potential harm to the

interests of the entity, investors, creditors, employees, or the general public.

Members Providing Financial Statement Attest Services

Obtaining an Understanding of the Matter

- .13** If a member engaged to perform *financial statement attest services* becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the member should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.
- .14** A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. ~~Depending on the nature and significance of the matter, the member may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.~~
- .15** If the member identifies or suspects that noncompliance has occurred or is likely to occur, the member should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance.
- .16** Such discussion **may** serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences. ~~The discussion also may prompt management or those charged with governance to investigate the matter.~~
- .17** The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider **may** include these:
- a. The nature and circumstances of the matter
 - b. The individuals actually or potentially involved
 - c. The likelihood of collusion
 - d. The potential consequences of the matter
 - e. Whether that level of management is able to investigate the matter and take appropriate action

.18 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If a member believes that management is involved in the noncompliance or suspected noncompliance, the member should discuss the matter with those charged with governance. The member may also consider discussing the matter with internal auditors, when applicable. In the context of a group audit engagement, the appropriate level may be management at an entity that controls the client.

Addressing the Matter

.19 In discussing the noncompliance or suspected noncompliance with management and, when appropriate, those charged with governance, the member should advise them to take the following appropriate and timely actions, if they have not already done so, **which may include:**

- a. ~~Rectify~~**Rectifying**, ~~remediate~~**remediating**, or ~~mitigate~~**mitigating** the consequences of the noncompliance.
- b. ~~Deter~~**Deterring** the commission of the noncompliance if it has not yet occurred.
- c. ~~Disclose~~**Disclosing** the matter to an appropriate authority where required by law or regulation or when **otherwise** considered necessary ~~in the public interest~~.

.20 The member should consider whether the client's management and, if applicable, those charged with governance understand their legal or regulatory responsibilities with respect to the noncompliance or suspected noncompliance. If not, the member may **want to** suggest appropriate sources of information or recommend that they obtain legal advice.

.21 The member should comply with the following:

- a. Applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made.
- b. Applicable requirements under professional standards, including those relating to
 - i. identifying and responding to noncompliance, including fraud.
 - ii. communicating with those charged with governance.
 - iii. considering the implications of the noncompliance or suspected

noncompliance on the audit, review, or compilation report **for the current or prior engagements**.

- iv. communicating a former client's noncompliance to the successor auditor to the extent required under professional standards.

Communication With Respect to Group Audit Engagements

.22 A member may, for purposes of a group audit engagement, be requested by the group engagement team to perform work on financial or other information related to a component of the group.

If the member becomes aware of noncompliance or suspected noncompliance, the member should, in addition to responding to the matter in accordance with the provisions of this section, communicate **the noncompliance or suspected noncompliance** to the group audit engagement partner in accordance with AU-C section 600 *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, **unless prohibited from doing so by law or regulation**.

.23 If the group audit engagement partner becomes aware of noncompliance or suspected noncompliance in the course of a group audit engagement, including as a result of being informed of such a matter in accordance with paragraph .22, the group audit engagement partner should, in addition to responding to the matter in the context of the group audit engagement in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components whose financial or other information is subject to procedures performed for purposes of the group audit engagement.

In these circumstances, the group audit engagement partner should take steps to have the noncompliance or suspected noncompliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation.

Determining Whether Withdrawal From the Engagement Is Necessary

.24 The member should evaluate the appropriateness of the response of management and, if applicable, those charged with governance.

.25 Relevant factors to consider when evaluating the appropriateness of the response of management and, where applicable, those charged with governance, **may** include whether

- a. the response is timely.

- b. the noncompliance or suspected noncompliance has been adequately investigated.
- c. action has been, or is being, taken to rectify, remediate, or mitigate the consequences of any noncompliance.
- d. action has been or is being taken to deter the commission of any noncompliance if it has not yet occurred.
- e. appropriate steps have been, or are being, taken to reduce the risk of recurrence; for example, additional controls or training.
- f. the noncompliance or suspected noncompliance has been disclosed to an appropriate authority when appropriate and, if so, whether the disclosure appears adequate.

.26 In light of the response of management and, if applicable, those charged with governance, the member should determine whether withdrawing from the engagement and the professional relationship is necessary, where permitted by law and regulation.

.27 The determination of whether withdrawing from the engagement and the professional relationship is necessary ~~will~~ **may** depend on various factors, including these:

- a. The legal and regulatory framework
- b. The urgency of the matter
- c. The pervasiveness of the matter throughout the client
- d. Whether the member continues to have confidence in the integrity of management and, if applicable, those charged with governance
- e. Whether the noncompliance or suspected noncompliance is likely to ~~recur~~ **reoccur**
- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public

.28 Examples of circumstances that may cause a member no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations such as the following:

- a. The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.

- b. The [member](#) is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

.29 As consideration of the matter may involve complex analysis and judgments, a [member](#) may **want to** consider consulting internally **or externally**, **including** obtaining legal **or other** advice to understand the [member's](#) options and the professional or legal implications of taking any particular course of action, ~~or consulting on a confidential basis with a regulator or professional body.~~

Documentation

.30 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the [member](#) should, in addition to complying with the documentation requirements under applicable professional standards, document the following:

- a. The matter
- b. The results of discussion with management and, where applicable, [those charged with governance](#) and other parties
- c. How management and, where applicable, [those charged with governance](#), have responded to the matter
- d. The **judgments made and** the courses of action the [member took](#) ~~considered, the judgments made, and the decisions that were taken~~

Members Providing Services Other Than a Financial Statement Attest Service

Obtaining an Understanding of the Matter and Addressing the Matter

.31 If a [member](#) engaged to perform professional services other than a financial statement attest service becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the [member](#) should seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

.32 A [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. ~~Depending on the nature and significance of the matter, the [member](#) may consult on a~~

confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

- .33 If the member identifies or suspects that noncompliance has occurred or is likely to occur the member should discuss the matter with the appropriate level of management and, if the member has access to them and when appropriate, those charged with governance.
- .34 Such discussion ~~may serve~~ serves to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences. ~~The discussion also may prompt management or~~ those charged with governance to investigate the matter.
- .35 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider **may** include ~~these~~:
- a. The nature and circumstances of the matter
 - b. The individuals actually or potentially involved
 - c. The likelihood of collusion
 - d. The potential consequences of the matter
 - e. Whether that level of management is able to investigate the matter and take appropriate action

Communicating the Matter to the Client's Auditor **Financial Statement Attest Services Provider**

Members Performing a Service, Other Than a Financial Statement Attest Service, for a Financial Statement Attest Client

- .36 If the member is performing a service other than a *financial statement attest service* for a *financial statement attest client* of the firm or a component of a *financial statement attest client* of the firm, the member should communicate the noncompliance or suspected noncompliance within the firm. The communication should be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the **financial statement** attest engagement partner.
- .37 If the member is performing a service for a *financial statement attest client* of a network firm or a component of a *financial statement attest client* of a network firm, the member should consider whether to communicate the noncompliance or suspected noncompliance to the network firm. If the communication is made, it should be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the **financial statement** attest engagement partner.

.38 In all cases, the communication is to enable the **financial statement** attest engagement partner to be informed about the noncompliance or suspected noncompliance and to determine whether it should be addressed in accordance with the provisions of this interpretation and, if so, how.

Members Providing Services to a Client That Is Not a Financial Statement Attest Client

.39 If the member is performing services for a client that is not a financial statement attest client of the firm, except as required by law or regulation, the member is not permitted to communicate the noncompliance or suspected noncompliance to the firm that is the client's external auditor, if one exists. See the "Confidential Client Information Rule" [1.700.001].

Determining Whether Withdrawal From the Engagement Is Necessary

.40 The member should determine whether withdrawal from the engagement is necessary in ~~the public interest~~.

.41 Whether withdrawal from the engagement is necessary ~~will~~ **may** depend on various factors, including the member's understanding of the following:

- a. The legal and regulatory framework
- b. The appropriateness and timeliness of the response of management and, where applicable, those charged with governance
- c. The urgency of the matter
- d. Whether the member continues to have confidence in the integrity of management and, if applicable, those charged with governance
- e. The likelihood of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public
- f. The pervasiveness of the matter throughout the client
- g. Whether the noncompliance or suspected noncompliance is likely to **recur** **reoccur**

.42 Examples of circumstances that may cause the member no longer to have confidence in the integrity of management and, where applicable, those charged with governance, include such situations as the following:

- a. The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.

- b. The *member* is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

.43 As consideration of the matter may involve complex analysis and judgments, a *member* may **want to** consider consulting internally **or externally, including** obtaining legal **or other** advice to understand the *member's* options and the professional or legal implications of taking any particular course of action, ~~or consulting on a confidential basis with a regulator or professional body.~~

Documentation

.44 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the *member* is encouraged to document the following, in addition to complying with the documentation requirements under applicable professional standards:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, those charged with governance have responded to the matter
- d. The **judgments made and the** courses of action the member **took** ~~considered, the judgments made, and the decisions that were taken~~

Effective Date

.45 This interpretation is effective one year after announcement is published in the Journal of Accountancy.

Text of proposed interpretation “Responding to Noncompliance With Laws and Regulations” (applicable to members in business)

(Additions made since the February 25, 2021 exposure draft are presented in **bold italic** text. Deletions are presented in ~~strike through~~. Changes since the November 16, 2021 PEEC meeting are highlighted.)

2.170. Responding to Noncompliance With Laws and Regulations

2.170.010 Responding to Noncompliance With Laws and Regulations Introduction

Applicable to All Members in Business

- .01 When a member in business encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of carrying out professional services, threats to compliance with the “Integrity and Objectivity Rule” [2.100.001] may exist. The purpose of this interpretation is to set out the member’s responsibilities when encountering such noncompliance or suspected noncompliance and guide the member in evaluating the implications of the matter and the possible courses of action when responding to it. This interpretation applies regardless of the nature of the employing organization.
- .02 Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, **that are contrary to the prevailing laws or regulations and are** committed by the member’s employing organization or by those charged with governance, by management, or by other individuals working for or under the direction of the employing organization ~~which are contrary to the prevailing laws or regulations~~.
- .03 When responding to noncompliance or suspected noncompliance in the course of carrying out professional services, the member should consider the member’s obligations under the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070] of the “Acts Discreditable Rule” [2.400.001]. For example, a member should not disclose the noncompliance or suspected noncompliance to a third party without the employer’s consent unless expressly permitted under the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070], such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations, as discussed in paragraph .04.
- .04 Some regulators, for example, the SEC or state boards of accountancy, may have **regulatory** provisions governing how **a members** should address noncompliance or suspected noncompliance which may differ from or go beyond this interpretation. **In some circumstances, and** state and federal civil and criminal laws, **in some circumstances,** may **also** impose additional requirements. When encountering **such** noncompliance or suspected noncompliance, **the a member** has a responsibility to obtain an understanding of those **legal or regulatory** provisions and comply with

them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party prior to making any disclosure, for example, pursuant to anti-money laundering legislation.

.05 A distinguishing mark of the ~~accountancy~~ **accounting** profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of ~~the a~~ member are as follows:

- a. To comply with the “Integrity and Objectivity Rule” [2.100.001]
- b. To alert management or, **if when** appropriate, those charged with governance of the employing organization, to enable them to
 - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - ii. deter the commission of the noncompliance when it has not yet occurred
- c. To take such further action as appropriate in the public interest
- d. **To comply with applicable laws, regulations, and the “Compliance With Standards Rule” [2.310.001]**

Applicability

.06 **This interpretation does not apply to the following:**

- a. **Personal misconduct unrelated to the business activities of the employing organization**
- b. **Noncompliance by parties other than**
 - i. **the employing organization,**
 - ii. **those charged with governance,**
 - iii. **management, or**
 - iv. **other individuals working for or under the direction of the employing organization.**
- c. **The provision of professional services by a member in business involving who is involved with:**
 - i. **A litigation or investigation engagement as defined in the AICPA’s**

Statement on Standards for Forensic Services No. 1.

- ii. **A matter where the purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.**
- iii. **An engagement A matter** pursuant to which the protections set forth in Internal Revenue Code Section 7525 **and or** any comparable state or local statutes **that** may apply.
- iv. ~~iii. A matter otherwise subject to the International Standards for the Professional Practice of Internal Auditing.~~
- v. **A matter otherwise The provision of professional services** subject to the International Standards for the Professional Practice of Internal Auditing.
- vi. ~~iv. A matter where the purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.~~
- vii. **A matter where compliance with this interpretation would cause a violation of law or regulation.**

The **A member** may nevertheless find the guidance in this **section interpretation** helpful in considering how to respond in these situations.

Scope

~~.07~~ .06 This interpretation sets out the approach to be taken by a **member** who encounters or is made aware of noncompliance or suspected noncompliance with the following:

- a. Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the [employing organization's financial statements](#)
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the [employing organization's financial statements](#), but compliance with which may be fundamental to the operating aspects of the *employing organization's* business, to its ability to continue its business, or to avoid material penalties

~~.08~~ .07 Examples of laws and regulations which this interpretation addresses **may** include those that deal with ~~the following~~:

- a. Fraud, corruption, and bribery
- b. Money laundering
- c. Securities markets and trading

- d. Banking and other financial products and services
- e. Data protection
- f. Tax and pension liabilities and payments
- g. Environmental protection
- h. Public health and safety

~~.09~~ ~~.08~~ Noncompliance may result in fines, litigation, or other consequences for the [employing organization](#) that may have a material effect on its [financial statements](#). Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this [section](#) **interpretation**, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms. ~~Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.~~

~~.10~~ ~~.09~~-A [member](#) who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

~~.10~~ This interpretation does not address the following:

- ~~a.~~ Personal misconduct unrelated to the business activities of the [employing organization](#)
- ~~b.~~ Noncompliance other than by the ~~employing organization~~ or [those charged with governance](#), management, or other individuals working for or under the direction of the ~~employing organization~~

The [member](#) may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Employing Organization's Management and Those Charged With Governance

~~.11~~ It is the responsibility of the [employing organization's](#) management, with the oversight of [those charged with governance](#), to ensure that the *employing organization's* business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and [those charged with governance](#) to identify and address any noncompliance by the *employing organization* or by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the *employing organization*.

Responsibilities of Members in Business

- .12 Many employing organizations have established protocols and procedures (for example, an ethics policy or internal whistleblowing mechanism) regarding how noncompliance or suspected noncompliance by the *employing organization* should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the member's employing organization, the member should consider them in determining how to respond to such noncompliance.
- .13 If **When** a member becomes aware of a matter to which this interpretation applies, **the steps that the member should take timely steps** takes to comply with this ~~section~~ **interpretation, taking into account** should be taken on a timely basis, having regard to the member's understanding of the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees, or the general public.

Responsibilities of Members Who Are Senior Professional Accountants in Business

- .14 Members who are senior professional accountants in business are directors, officers, or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment, and control of the employing organization's human, financial, technological, physical, and intangible resources. Because of their roles, positions, and spheres of influence within the *employing organization*, there is a greater expectation for them to take whatever action is appropriate in the public interest to respond to noncompliance or suspected noncompliance than other professional accountants within the *employing organization*.

Obtaining an Understanding of the Matter

- .15 If, in the course of carrying out professional services, a member who is a senior professional accountant becomes aware of **credible** information concerning an instance of noncompliance or suspected noncompliance, the member should obtain an understanding of the matter, including the following:
- a. The nature of the act and the circumstances in which it has occurred or ~~may occur~~ **is likely to occur**
 - b. The application of the relevant laws and regulations to the circumstances
 - c. The potential consequences to the employing organization, investors, creditors, employees, or the wider public
- .16 A member who is a senior professional accountant is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the member's role within the employing organization. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- .17 Depending on the nature and significance of the matter, the member may cause, or take appropriate

steps to cause, the matter to be investigated internally. The member may also consult on a confidential basis with others within the employing organization or a professional body or with legal counsel.

Addressing the Matter

- .18** If the member who is a senior professional accountant identifies or suspects that noncompliance has occurred or may occur, the member should, subject to paragraph .12, discuss the matter with the member's immediate superior, if any, to determine how the matter should be addressed. If the member's immediate superior appears to be involved in the matter, the member should discuss the matter with the next higher level of authority within the employing organization.
- .19** The member who is a senior professional accountant should take the appropriate steps to
- a. have the matter communicated to those charged with governance to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.
 - b. comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority.
 - c. have the consequences of the noncompliance or suspected noncompliance rectified, remediated, or mitigated.
 - d. reduce the risk of reoccurrence.
 - e. seek to deter the commission of the noncompliance if it has not yet occurred.
- .20** In addition to responding to the matter in accordance with the provisions of this section, the member who is a senior professional accountant should disclose the matter to the employing organization's external auditor, if any, if the member determines such disclosure is necessary pursuant to the member's obligation to provide all information necessary to enable the auditor to perform the audit. See the "Obligation of a Member to His or Her Employer's External Accountant" interpretation [2.130.030] of the "Integrity and Objectivity Rule" [2.100.001] for additional guidance.

Determining Whether Further Action Is Necessary

- .21** The member who is a senior professional accountant should evaluate the appropriateness of the response of the member's superiors, if any, and those charged with governance.
- .22** Relevant factors to consider in evaluating the appropriateness of the response of the member's superiors, **if any where applicable**, and those charged with governance **may** include whether
- a. the response is timely.

- b. they have taken or authorized appropriate action to seek to rectify, remediate, or mitigate the consequences of the noncompliance, or to avert the noncompliance if it has not yet occurred.
- c. the matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

.23 In light of the response of the member's superiors, if **any applicable**, and those charged with governance, the member should determine if further action is necessary in the public interest. The determination of whether further action is necessary, and the nature and extent of it, ~~will~~ **may** depend on various factors, including these:

- a. The legal and regulatory framework
- b. The urgency of the matter
- c. The pervasiveness of the matter throughout the employing organization
- d. Whether the member who is a senior professional accountant continues to have confidence in the integrity of the member's superiors, **if applicable**, and those charged with governance
- e. Whether the noncompliance or suspected noncompliance is likely to ~~recur~~ **reoccur**
- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees, or the general public

.24 Examples of circumstances that may cause the member who is a senior professional accountant no longer to have confidence in the integrity of the member's superiors, **if applicable**, and those charged with governance include ~~such~~ situations **such** as **the following** these:

- a. The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. Contrary to legal or regulatory requirements, management has not reported the matter, or authorized the matter to be reported, to an appropriate authority within a reasonable period.

.25 Further action by the member who is a senior professional accountant may include the following:

- a. Informing the management of the parent entity of the matter if the employing organization is a member of a group
- b. Resigning from the employing organization
- c. Reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations

.26 When the member who is a senior professional accountant determines that resigning from the

employing organization would be appropriate, doing so would not be a substitute for taking other actions that may be necessary to achieve the member's objectives under this section.

- .27** The determination of whether to disclose the matter to an appropriate authority ~~will~~**may** also depend on external factors such as the following:
- a. Whether there is an appropriate authority that is able to receive the information and cause the matter to be investigated and action to be taken. Identifying an appropriate authority will depend upon the nature of the matter. For example, an appropriate authority could be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
 - b. Whether there exists robust and credible protection from civil, criminal, or professional liability or retaliation afforded by legislation or regulation, such as under whistleblowing legislation or regulation.
 - c. Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.
- .28** As consideration of the matter may involve complex analysis and judgments, the member who is a senior professional accountant may **want to** consider consulting internally **or externally, including** obtaining legal **or other** advice to understand the member's options and the professional or legal implications of taking any particular course of action ~~or consulting on a confidential basis with a regulator or professional body.~~

Documentation

- .29** In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member who is a senior professional accountant is encouraged to have the following matters documented:
- a. The matter
 - b. The results of discussions with the member's superiors, **if any where applicable**, and those charged with governance and other parties
 - c. How the member's superiors, **if any where applicable**, and those charged with governance have responded to the matter
 - d. The **judgments made and the** courses of action the member took ~~considered, the judgments made, and the decisions that were taken~~
 - e. How the member is satisfied that the member has fulfilled the responsibility set out in paragraph .23

Responsibilities of Members Other Than Those Who Are Senior Professional Accountants in Business

- .30** If, in the course of carrying out [professional services](#), a [member](#) becomes aware of information concerning an instance of noncompliance or suspected noncompliance, the [member](#) should seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.
- .31** The [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the [member's](#) role within the [employing organization](#). Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. ~~Depending on the nature and significance of the matter, the [member](#) may consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.~~
- .32** If the [member](#) identifies or suspects that noncompliance has occurred or may occur, the [member](#) should, subject to paragraph .12, inform an immediate superior to enable the superior to take appropriate action. If the [member's](#) immediate superior appears to be involved in the matter, the [member](#) should inform the next higher level of authority within the [employing organization](#).
- .33** In addition to responding to the matter in accordance with the provisions of this section, the [member](#) should disclose the matter to the [employing organization's](#) external auditor, if any, if the [member](#) determines such disclosure is necessary pursuant to the [member's](#) obligation to provide all information necessary to enable the auditor to perform the audit. See the "[Obligation of a Member to His or Her Employer's External Accountant](#)" interpretation [2.130.030] for additional guidance.
- .34** Further action by the [member](#) may include reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations. In determining whether to disclose the matter to an appropriate authority, the [member](#) may consider the factors in paragraph .27.

Documentation

- .35** In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the [member](#) is encouraged to have the following matters documented:
- a. The matter
 - b. The results of discussions with the [member's](#) superior; management and, where applicable, [those charged with governance](#); and other parties
 - c. How the [member's](#) superior has responded to the matter
 - d. The **judgments made and the** courses of action the [member took](#) ~~considered, the judgments made, and the decisions that were taken~~

Effective Date

.36 This interpretation is effective one year after announcement is published in the *Journal of Accountancy*.

Text of proposed interpretations
“Responding to Noncompliance With Laws and Regulations”
(clean)

1.170. Responding to Noncompliance With Laws and Regulations

1.170.010 Responding to Noncompliance With Laws and Regulations

Introduction

- .01** When a [member](#) encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of providing a [professional service](#) to a [client](#), [threats](#) to compliance with the “[Integrity and Objectivity Rule](#)” [1.100.001] may exist. The purpose of this interpretation is to set out the [member’s](#) responsibilities when encountering such noncompliance or suspected noncompliance and guide the [member](#) in evaluating the implications of the matter and the possible courses of action when responding to it. The [member’s](#) responsibilities in this interpretation are owed to a person or entity that engages the [member](#) or [member’s](#) firm to perform professional services (engaging entity). Therefore, when the engaging entity and subject entity are different, the term client refers to the engaging entity.
- .02** Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by [those charged with governance](#), by management, or by other individuals working for or under the direction of a client.
- .03** When responding to noncompliance or suspected noncompliance in the course of providing a [professional service](#) to a client, the [member](#) should consider the [member’s](#) obligations under the “[Confidential Client Information Rule](#)” [1.700.001]. For example, a [member](#) should not disclose the noncompliance or suspected noncompliance to a third party without the client’s consent unless expressly permitted under the “Confidential Client Information Rule,” such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations or the “[Compliance With Standards Rule](#)” [1.310.001], as discussed in paragraphs .04 and .05d., respectively.
- .04** Some regulators, such as the SEC or state boards of accountancy, may have regulatory provisions governing how a [member](#) should address noncompliance or

suspected noncompliance which may differ from or go beyond this interpretation. In some circumstances, state and federal civil and criminal laws may also impose additional requirements. When encountering noncompliance or suspected noncompliance, a [member](#) has a responsibility to obtain an understanding of those legal or regulatory provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure.

- .05** A distinguishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a [member](#) are as follows:
- a. To comply with the [“Integrity and Objectivity Rule”](#) [1.100.001]
 - b. To alert management or, when appropriate, [those charged with governance](#) of the client, to enable them to
 - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - ii. deter the commission of the noncompliance when it has not yet occurred
 - c. To determine whether withdrawal from the engagement and the professional relationship is necessary, when permitted by law and regulation
 - d. To take such further action as appropriate in the public interest
 - e. To comply with applicable laws, regulations, and the [“Compliance With Standards Rule”](#) [1.300.001]

Applicability

.06 This interpretation does not apply to the following:

- a. Personal misconduct unrelated to the business activities of the client.
- b. Noncompliance by parties other than:
 - i. the client,
 - ii. [those charged with governance](#),

- iii. management, or
- iv. other individuals working for or under the direction of the client.

This includes, for example, circumstances in which a [member](#) has been engaged by a client to perform a due diligence assignment on a third-party entity (that is, subject entity) and the identified or suspected noncompliance has been committed by that third party.

- c. A litigation or investigation engagement as defined in AICPA Statement on Standards for Forensic Services No. 1.
- d. An engagement where the primary purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.
- e. An engagement pursuant to which the protections set forth in Internal Revenue Code Section 7525 or any comparable state or local statutes apply.
- f. An engagement performed under the International Standards for the Professional Practice of Internal Auditing.
- g. An engagement where compliance with this interpretation would cause a violation of law or regulation.

A [member](#) may nevertheless find the guidance in this interpretation helpful in considering how to respond in these situations.

Scope

.07 This interpretation sets out the approach to be taken by a [member](#) who encounters or is made aware of noncompliance or suspected noncompliance with the following:

- a. Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's [financial statements](#)
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's [financial statements](#), but compliance with which may be fundamental to the operating aspects of the client's business, to

its ability to continue its business, or to avoid material penalties

.08 Examples of laws and regulations which this interpretation addresses may include those that deal with:

- a. Fraud, corruption, and bribery
- b. Money laundering
- c. Securities markets and trading
- d. Banking and other financial products and services
- e. Data protection
- f. Tax and pension liabilities and payments
- g. Environmental protection
- h. Public health and safety

.09 Noncompliance may result in fines, litigation, or other consequences for the client that may have a material effect on its [financial statements](#). Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms.

.10 A [member](#) who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

Responsibilities of the Client's Management and Those Charged With Governance

.11 The client's management is responsible, with the oversight of [those charged with governance](#), to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and [those charged with governance](#) to identify and address any noncompliance by the client, by an individual charged with governance of the entity, by a [member](#) of management, or by other individuals working for or under the direction of the client.

Responsibilities of Members in Public Practice

.12 When a [member](#) becomes aware of a matter to which this interpretation applies, the [member](#) should take timely steps to comply with this interpretation, taking into account the [member's](#) understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees, or the general public.

Members Providing Financial Statement Attest Services

Obtaining an Understanding of the Matter

.13 If a [member](#) engaged to perform financial statement attest services becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the [member](#) should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

.14 A [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

.15 If the [member](#) identifies or suspects that noncompliance has occurred or is likely to occur, the [member](#) should discuss the matter with the appropriate level of management and, when appropriate, [those charged with governance](#).

.16 Such discussion may serve to clarify the [member's](#) understanding of the facts and circumstances relevant to the matter and its potential consequences.

.17 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider may include these:

- a. The nature and circumstances of the matter
- b. The individuals actually or potentially involved
- c. The likelihood of collusion
- d. The potential consequences of the matter

- e. Whether that level of management is able to investigate the matter and take appropriate action

.18 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If a member believes that management is involved in the noncompliance or suspected noncompliance, the member should discuss the matter with those charged with governance. The member may also consider discussing the matter with internal auditors, when applicable. In the context of a group audit engagement, the appropriate level may be management at an entity that controls the client.

Addressing the Matter

.19 In discussing the noncompliance or suspected noncompliance with management and, when appropriate, those charged with governance, the member should advise them to take appropriate and timely actions, if they have not already done so, which may include:

- a. Rectifying, remediating, or mitigating the consequences of the noncompliance.
- b. Deterring the commission of the noncompliance if it has not yet occurred.
- c. Disclosing the matter to an appropriate authority where required by law or regulation or when otherwise considered necessary.

.20 The member should consider whether the client's management and, if applicable, those charged with governance understand their legal or regulatory responsibilities with respect to the noncompliance or suspected noncompliance. If not, the member may want to suggest appropriate sources of information or recommend that they obtain legal advice.

.21 The member should comply with the following:

- a. Applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made.
- b. Applicable requirements under professional standards, including those relating to

- i. identifying and responding to noncompliance, including fraud.
- ii. communicating with [those charged with governance](#).
- iii. considering the implications of the noncompliance or suspected noncompliance on the audit, review, or compilation report for the current or prior engagements.
- iv. communicating a former client's noncompliance to the successor auditor to the extent required under professional standards.

Communication With Respect to Group Audit Engagements

.22 A [member](#) may, for purposes of a group audit engagement, be requested by the group engagement team to perform work on financial or other information related to a component of the group.

If the [member](#) becomes aware of noncompliance or suspected noncompliance, the [member](#) should, in addition to responding to the matter in accordance with the provisions of this section, communicate the noncompliance or suspected noncompliance to the group audit engagement partner in accordance with AU-C section 600 *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, unless prohibited from doing so by law or regulation.

.23 If the group audit engagement [partner](#) becomes aware of noncompliance or suspected noncompliance in the course of a group audit engagement, including as a result of being informed of such a matter in accordance with paragraph .22, the group audit engagement [partner](#) should, in addition to responding to the matter in the context of the group audit engagement in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components whose financial or other information is subject to procedures performed for purposes of the group audit engagement.

In these circumstances, the group audit engagement [partner](#) should take steps to have the noncompliance or suspected noncompliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation.

Determining Whether Withdrawal From the Engagement Is Necessary

.24 The [member](#) should evaluate the appropriateness of the response of

management and, if applicable, [those charged with governance](#).

.25 Relevant factors to consider when evaluating the appropriateness of the response of management and, where applicable, [those charged with governance](#), may include whether

- a. the response is timely.
- b. the noncompliance or suspected noncompliance has been adequately investigated.
- c. action has been, or is being, taken to rectify, remediate, or mitigate the consequences of any noncompliance.
- d. action has been or is being taken to deter the commission of any noncompliance if it has not yet occurred.
- e. appropriate steps have been, or are being, taken to reduce the risk of recurrence; for example, additional controls or training.
- f. the noncompliance or suspected noncompliance has been disclosed to an appropriate authority when appropriate and, if so, whether the disclosure appears adequate.

.26 In light of the response of management and, if applicable, [those charged with governance](#), the [member](#) should determine whether withdrawing from the engagement and the professional relationship is necessary, where permitted by law and regulation.

.27 The determination of whether withdrawing from the engagement and the professional relationship is necessary may depend on various factors, including these:

- a. The legal and regulatory framework
- b. The urgency of the matter
- c. The pervasiveness of the matter throughout the client
- d. Whether the [member](#) continues to have confidence in the integrity of management and, if applicable, [those charged with governance](#)
- e. Whether the noncompliance or suspected noncompliance is likely to reoccur

- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public

.28 Examples of circumstances that may cause a member no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations such as the following:

- a. The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. The member is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

.29 As consideration of the matter may involve complex analysis and judgments, a member may want to consider consulting internally or externally, including obtaining legal or other advice to understand the member's options and the implications of taking any particular course of action.

Documentation

.30 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member should, in addition to complying with the documentation requirements under applicable professional standards, document the following:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, those charged with governance, have responded to the matter
- d. The judgments made and the courses of action the member took

Members Providing Services Other Than a Financial Statement Attest Service

Obtaining an Understanding of the Matter and Addressing the Matter

.31 If a member engaged to perform professional services other than a financial statement attest service becomes aware of credible information concerning an

instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the [member](#) should seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

- .32 A [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- .33 If the [member](#) identifies or suspects that noncompliance has occurred or is likely to occur the [member](#) should discuss the matter with the appropriate level of management and, if the [member](#) has access to them and when appropriate, [those charged with governance](#).
- .34 Such discussion may serve to clarify the [member's](#) understanding of the facts and circumstances relevant to the matter and its potential consequences.
- .35 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider may include:
 - a. The nature and circumstances of the matter
 - b. The individuals actually or potentially involved
 - c. The likelihood of collusion
 - d. The potential consequences of the matter
 - e. Whether that level of management is able to investigate the matter and take appropriate action

Communicating the Matter to the Client's Financial Statement Attest Services Provider

Members Performing a Service, Other Than a Financial Statement Attest Service, for a Financial Statement Attest Client

- .36 If the [member](#) is performing a service other than a *financial statement attest service* for a *financial statement attest client* of the [firm](#) or a component of a *financial statement attest client* of the *firm*, the [member](#) should communicate the noncompliance or suspected noncompliance within the *firm*. The communication should be made in accordance with the *firm's* protocols or procedures or, in the

absence of such protocols and procedures, directly to the [financial statement attest engagement partner](#).

- .37 If the [member](#) is performing a service for a *financial statement attest client* of a [network firm](#) or a component of a *financial statement attest client* of a [network firm](#), the [member](#) should consider whether to communicate the noncompliance or suspected noncompliance to the [network firm](#). If the communication is made, it should be made in accordance with the [network's](#) protocols or procedures or, in the absence of such protocols and procedures, directly to the [financial statement attest engagement partner](#).
- .38 In all cases, the communication is to enable the [financial statement attest engagement partner](#) to be informed about the noncompliance or suspected noncompliance and to determine whether it should be addressed in accordance with the provisions of this interpretation and, if so, how.

Members Providing Services to a Client That Is Not a Financial Statement Attest Client

- .39 If the [member](#) is performing services for a client that is not a *financial statement attest client* of the [firm](#), except as required by law or regulation, the [member](#) is not permitted to communicate the noncompliance or suspected noncompliance to the firm that is the client's external auditor, if one exists. See the "[Confidential Client Information Rule](#)" [1.700.001].

Determining Whether Withdrawal From the Engagement Is Necessary

- .40 The [member](#) should determine whether withdrawal from the engagement is necessary.
- .41 Whether withdrawal from the engagement is necessary may depend on various factors, including the [member's](#) understanding of the following:
- a. The legal and regulatory framework
 - b. The appropriateness and timeliness of the response of management and, where applicable, [those charged with governance](#)
 - c. The urgency of the matter
 - d. Whether the [member](#) continues to have confidence in the integrity of management and, if applicable, [those charged with governance](#)
 - e. The likelihood of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public

- f. The pervasiveness of the matter throughout the client
- g. Whether the noncompliance or suspected noncompliance is likely to reoccur

.42 Examples of circumstances that may cause the *member* no longer to have confidence in the integrity of management and, where applicable, *those charged with governance* include such situations as the following:

- a. The *member* suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. The *member* is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

.43 As consideration of the matter may involve complex analysis and judgments, a *member* may want to consider consulting internally or externally, including obtaining legal or other advice to understand the *member's* options and the implications of taking any particular course of action.

Documentation

.44 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the *member* is encouraged to document the following, in addition to complying with the documentation requirements under applicable professional standards:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, those charged with governance have responded to the matter
- d. The judgments made and the courses of action the member took

Effective Date

.45 This interpretation is effective one year after announcement is published in the Journal of Accountancy.

2.170. Responding to Noncompliance With Laws and Regulations

2.170.010 Responding to Noncompliance With Laws and Regulations

Introduction

- .01** When a [member in business](#) encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of carrying out [professional services](#), [threats](#) to compliance with the [“Integrity and Objectivity Rule”](#) [2.100.001] may exist. The purpose of this interpretation is to set out the [member’s](#) responsibilities when encountering such noncompliance or suspected noncompliance and guide the [member](#) in evaluating the implications of the matter and the possible courses of action when responding to it. This interpretation applies regardless of the nature of the [employing organization](#).
- .02** Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by the [member’s employing organization](#) or by [those charged with governance](#), by management, or by other individuals working for or under the direction of the [employing organization](#).
- .03** When responding to noncompliance or suspected noncompliance in the course of carrying out [professional services](#), the [member](#) should consider the [member’s](#) obligations under the [“Confidential Information Obtained From Employment or Volunteer Activities”](#) interpretation [2.400.070] of the [“Acts Discreditable Rule”](#) [2.400.001]. For example, a [member](#) should not disclose the noncompliance or suspected noncompliance to a third party without the employer’s consent unless expressly permitted under the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070], such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations, as discussed in paragraph .04.
- .04** Some regulators, for example, the SEC or state boards of accountancy, may have regulatory provisions governing how a [member](#) should address noncompliance or suspected noncompliance which may differ from or go beyond this interpretation. In some circumstances, state and federal civil and criminal laws may also impose additional requirements. When encountering noncompliance or suspected noncompliance, a [member](#) has a responsibility to obtain an understanding of those legal or regulatory provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party prior to making any disclosure.
- .05** A distinguishing mark of the accounting profession is its acceptance of the responsibility to

act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a [member](#) are as follows:

- a. To comply with the [“Integrity and Objectivity Rule”](#) [2.100.001]
- b. To alert management or, when appropriate, [those charged with governance](#) of the [employing organization](#), to enable them to
 - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - ii. deter the commission of the noncompliance when it has not yet occurred
- c. To take such further action as appropriate in the public interest
- d. To comply with applicable laws, regulations, and the [“Compliance With Standards Rule”](#) [2.310.001]

Applicability

.06 This interpretation does not apply to the following:

- a. Personal misconduct unrelated to the business activities of the [employing organization](#)
- b. Noncompliance by parties other than
 - i. the [employing organization](#),
 - ii. [those charged with governance](#),
 - iii. management, or
 - iv. other individuals working for or under the direction of the [employing organization](#).
- c. The provision of professional services by a [member in business](#) involving:
 - i. A litigation or investigation as defined in AICPA Statement on Standards for Forensic Services No. 1.
 - ii. A matter where the purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.
 - iii. A matter pursuant to which the protections set forth in Internal

Revenue Code Section 7525 or any comparable state or local statutes apply.

- iv. The provision of professional services subject to the International Standards for the Professional Practice of Internal Auditing.
- v. A matter where compliance with this interpretation would cause a violation of law or regulation.

A [member](#) may nevertheless find the guidance in this interpretation helpful in considering how to respond in these situations.

Scope

.07 This interpretation sets out the approach to be taken by a [member](#) who encounters or is made aware of noncompliance or suspected noncompliance with the following:

- a. Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the [employing organization's financial statements](#)
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the [employing organization's financial statements](#), but compliance with which may be fundamental to the operating aspects of the *employing organization's* business, to its ability to continue its business, or to avoid material penalties

.08 Examples of laws and regulations which this interpretation addresses may include those that deal with:

- a. Fraud, corruption, and bribery
- b. Money laundering
- c. Securities markets and trading
- d. Banking and other financial products and services
- e. Data protection
- f. Tax and pension liabilities and payments
- g. Environmental protection
- h. Public health and safety

- .09 Noncompliance may result in fines, litigation, or other consequences for the [employing organization](#) that may have a material effect on its [financial statements](#). Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms.
- .10 A [member](#) who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

Responsibilities of the Employing Organization's Management and Those Charged With Governance

- .11 It is the responsibility of the [employing organization's](#) management, with the oversight of [those charged with governance](#), to ensure that the *employing organization's* business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and [those charged with governance](#) to identify and address any noncompliance by the *employing organization* or by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the *employing organization*.

Responsibilities of Members in Business

- .12 Many [employing organizations](#) have established protocols and procedures (for example, an ethics policy or internal whistleblowing mechanism) regarding how noncompliance or suspected noncompliance by the *employing organization* should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the [member's](#) *employing organization*, the [member](#) should consider them in determining how to respond to such noncompliance.
- .13 When a [member](#) becomes aware of a matter to which this interpretation applies, the [member](#) should take timely steps to comply with this interpretation, taking into account the [member's](#) understanding of the nature of the matter and the potential harm to the interests of the [employing organization](#), investors, creditors, employees, or the general public.

Responsibilities of Members Who Are Senior Professional Accountants in Business

- .14 [Members](#) who are senior professional accountants in business are directors, officers, or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment, and control of the [employing organization's](#) human, financial, technological, physical, and intangible resources. Because of their roles, positions, and spheres of influence within the *employing organization*, there is a greater expectation for them to take whatever action is appropriate in the public interest to respond to

noncompliance or suspected noncompliance than other professional accountants within the *employing organization*.

Obtaining an Understanding of the Matter

- .15 If, in the course of carrying out *professional services*, a *member* who is a senior professional accountant becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, the *member* should obtain an understanding of the matter, including the following:
- a. The nature of the act and the circumstances in which it has occurred or is likely to occur
 - b. The application of the relevant laws and regulations to the circumstances
 - c. The potential consequences to the *employing organization*, investors, creditors, employees, or the wider public
- .16 A *member* who is a senior professional accountant is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the *member's* role within the *employing organization*. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- .17 Depending on the nature and significance of the matter, the *member* may cause, or take appropriate steps to cause, the matter to be investigated internally.

Addressing the Matter

- .18 If the *member* who is a senior professional accountant identifies or suspects that noncompliance has occurred or may occur, the *member* should, subject to paragraph .12, discuss the matter with the *member's* immediate superior, if any, to determine how the matter should be addressed. If the *member's* immediate superior appears to be involved in the matter, the *member* should discuss the matter with the next higher level of authority within the *employing organization*.
- .19 The *member* who is a senior professional accountant should take the appropriate steps to
- a. have the matter communicated to *those charged with governance* to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.
 - b. comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority.

- c. have the consequences of the noncompliance or suspected noncompliance rectified, remediated, or mitigated.
- d. reduce the risk of reoccurrence.
- e. seek to deter the commission of the noncompliance if it has not yet occurred.

.20 In addition to responding to the matter in accordance with the provisions of this section, the member who is a senior professional accountant should disclose the matter to the employing organization's external auditor, if any, if the member determines such disclosure is necessary pursuant to the member's obligation to provide all information necessary to enable the auditor to perform the audit. See the "Obligation of a Member to His or Her Employer's External Accountant" interpretation [2.130.030] of the "Integrity and Objectivity Rule"[2.100.001] for additional guidance.

Determining Whether Further Action Is Necessary

.21 The member who is a senior professional accountant should evaluate the appropriateness of the response of the member's superiors, if any, and those charged with governance.

.22 Relevant factors to consider in evaluating the appropriateness of the response of the member's superiors, where applicable, and those charged with governance may include whether

- a. the response is timely.
- b. they have taken or authorized appropriate action to seek to rectify, remediate, or mitigate the consequences of the noncompliance, or to avert the noncompliance if it has not yet occurred.
- c. the matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

.23 In light of the response of the member's superiors, if applicable, and those charged with governance, the member should determine if further action is necessary in the public interest. The determination of whether further action is necessary, and the nature and extent of it, may depend on various factors, including these:

- a. The legal and regulatory framework
- b. The urgency of the matter
- c. The pervasiveness of the matter throughout the employing organization
- d. Whether the member who is a senior professional accountant continues to have

confidence in the integrity of the member's superiors and, if applicable, those charged with governance

- e. Whether the noncompliance or suspected noncompliance is likely to reoccur
- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees, or the general public

.24 Examples of circumstances that may cause the member who is a senior professional accountant no longer to have confidence in the integrity of the member's superiors, if applicable, and those charged with governance include situations such as the following:

- a. The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. Contrary to legal or regulatory requirements, management has not reported the matter, or authorized the matter to be reported, to an appropriate authority within a reasonable period.

.25 Further action by the member who is a senior professional accountant may include the following:

- a. Informing the management of the parent entity of the matter if the employing organization is a member of a group
- b. Resigning from the *employing organization*
- c. Reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations

.26 When the member who is a senior professional accountant determines that resigning from the employing organization would be appropriate, doing so would not be a substitute for taking other actions that may be necessary to achieve the member's objectives under this section.

.27 The determination of whether to disclose the matter to an appropriate authority may also depend on external factors such as the following:

- a. Whether there is an appropriate authority that is able to receive the information and cause the matter to be investigated and action to be taken. Identifying an appropriate authority will depend upon the nature of the matter. For example, an appropriate authority could be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach

of environmental laws and regulations.

- b. Whether there exists robust and credible protection from civil, criminal, or professional liability or retaliation afforded by legislation or regulation, such as under whistleblowing legislation or regulation.
- c. Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.

.28 As consideration of the matter may involve complex analysis and judgments, the [member](#) who is a senior professional accountant may want to consider consulting internally or externally, including obtaining legal or other advice to understand the [member's](#) options and the implications of taking any particular course of action.

Documentation

.29 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the [member](#) who is a senior professional accountant is encouraged to have the following matters documented:

- a. The matter
- b. The results of discussions with the [member's](#) superiors, where applicable, and [those charged with governance](#) and other parties
- c. How the [member's](#) superiors, where applicable, and [those charged with governance](#) have responded to the matter
- d. The judgments made and the courses of action the [member](#) took
- e. How the [member](#) is satisfied that the [member](#) has fulfilled the responsibility set out in paragraph .23

Responsibilities of Members Other Than Those Who Are Senior Professional Accountants in Business

.30 If, in the course of carrying out [professional services](#), a [member](#) becomes aware of information concerning an instance of noncompliance or suspected noncompliance, the [member](#) should seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

.31 The [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the [member's](#) role within the [employing organization](#). Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate

adjudicative body.

- .32 If the [member](#) identifies or suspects that noncompliance has occurred or may occur, the [member](#) should, subject to paragraph .12, inform an immediate superior to enable the superior to take appropriate action. If the [member's](#) immediate superior appears to be involved in the matter, the [member](#) should inform the next higher level of authority within the [employing organization](#).
- .33 In addition to responding to the matter in accordance with the provisions of this section, the [member](#) should disclose the matter to the [employing organization's](#) external auditor, if any, if the [member](#) determines such disclosure is necessary pursuant to the [member's](#) obligation to provide all information necessary to enable the auditor to perform the audit. See the "[Obligation of a Member to His or Her Employer's External Accountant](#)" interpretation [2.130.030] for additional guidance.
- .34 Further action by the [member](#) may include reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations. In determining whether to disclose the matter to an appropriate authority, the [member](#) may consider the factors in paragraph .27.

Documentation

- .35 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the [member](#) is encouraged to have the following matters documented:
- a. The matter
 - b. The results of discussions with the [member's](#) superior; management and, where applicable, [those charged with governance](#); and other parties
 - c. How the [member's](#) superior has responded to the matter
 - d. The judgments made and the courses of action the [member](#) took

Effective Date

- .36 This interpretation is effective one year after announcement is published in the *Journal of Accountancy*.

Text of new proposed “financial statement attest services” definition

Financial statement attest services. Services in which a member performs a financial statement audit or review, or a compilation for which the member’s report does not disclose a lack of independence.

Text of proposed revisions to the “Ethical Conflicts” interpretations

(Additions appear in ***bold italic*** and deletions in ~~strikethrough~~.)

1.000 Introduction

1.000.020 Ethical Conflicts

- .01*** An ethical conflict arises when a *member* encounters one or both of the following:
- a. Obstacles to following an appropriate course of action due to internal or external pressures
 - b. Conflicts in applying relevant professional standards or legal standards

~~For example, a *member* suspects a fraud may have occurred, but reporting the suspected fraud would violate the *member's* responsibility to maintain *client* confidentiality.~~

- .02*** Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the *member* should consider factors such as the following:
- a. Relevant facts and circumstances, including applicable rules, laws, or regulations
 - b. Ethical issues involved
 - c. Established internal procedures
- .03*** The *member* should also be prepared to justify any departures that the *member* believes were appropriate in applying the relevant rules and law. If the *member* was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the *member* may have to address the consequences of any violations.
- .04*** Before pursuing a course of action, the *member* should consider consulting with appropriate persons within the *firm* or the organization that employs the *member*.
- .05*** If a *member* decides not to consult with appropriate persons within the *firm* or the organization that employs the *member* and the conflict remains unresolved after pursuing the selected course of action, the *member* should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The *member* also should consider

documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.

- .06** If the ethical conflict remains unresolved, the *member* will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the *member* should consider his or her continuing relationship with the engagement team, specific assignment, client, *firm*, or employer. [No prior reference: new content.]
- .07** ***Refer to the “Responding to Noncompliance With Laws and Regulations” interpretation [1.170.010] of the “Integrity and Objectivity Rule” [1.100.001] for additional guidance.***

2.000 Introduction

2.000.020 Ethical Conflicts

- .01** An ethical conflict arises when a member encounters one or both of the following:
- a. Obstacles to following an appropriate course of action due to internal or external pressures
 - b. Conflicts in applying relevant professional and legal standards.

~~For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain the confidentiality of his or her employer's confidential information.~~

- .02** Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the member should consider factors such as the following:
- a. Relevant facts and circumstances, including applicable rules, laws, or regulations
 - b. Ethical issues involved
 - c. Established internal procedures
- .03** The member should also be prepared to justify any departures that the member believes were appropriate in applying the relevant rules and law. If the member was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the member may have to address the consequences of any violations.
- .04** Before pursuing a course of action, the member should consider consulting with appropriate persons within the organization that employs the member.
- .05** If a member decides not to consult with appropriate persons within the organization that employs the member, and the conflict remains unresolved after pursuing the selected course of action, the member should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The member also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.
- .06** If the ethical conflict remains unresolved, the member will in all likelihood be in

violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the member should consider his or her continuing relationship with the specific assignment or employer. [No prior reference: new content]

.07 *Refer to the “Responding to Noncompliance With Laws and Regulations” interpretation [2.170.010] of the “Integrity and Objectivity Rule” [2.100.001] for additional guidance.*

Assisting attest clients with implementing accounting standards

Task force members

Jennifer Kary (chair), Nancy Beacham, Mike Brand, Jason Evans, Alan Long, Jim Newhard

Observers

Vincent DiBlanda, John Ford, Erik Lange, Brandon Mercer

AICPA staff

Liese Faircloth, Shannon Ziemba

Task force charge

To provide guidance on how members may assist an attest client with implementing an accounting standard without impairing independence.

Reason for agenda item

To seek adoption of the proposals from the exposure draft on "[Accounting Standards Implementation Services](#)" interpretation dated September 20, 2021.

Task force activities

The task force discussed the fifteen comment letters received from the exposure draft and recommends certain revisions as outlined in the following sections.

Overall, commenters were supportive of the proposed new interpretation. Some commenters requested nonauthoritative Qs & As and proposed revisions to the interpretation.

General comments on the proposed interpretation

The task force is not proposing revisions based on the following comments for the reasons outlined.

[CL 3](#) suggests better delineation between what does and does not impair independence:

- The interpretation is clear on services that will and will not impair a member's independence.
- Any further refinement of the proposed interpretation may create guidance that is too prescriptive and as such, may be used as a "checklist."

[CL 11](#) suggests the proposed interpretation has an appearance of bias since there are more examples of permissible services than impermissible services:

- The list of permissible services and impermissible services within the proposed interpretation serves as a proxy for the overarching principles pertaining to the

performance of any nonattest service as already defined by the code.

As such, the list of impermissible services, though mere examples, pertain to any service in which the member may accept a management responsibility. Adding more examples of impermissible services would not serve to clarify or add to the message.

- The task force believes the proposed lists provide adequate examples that properly address the boundaries by which independence is safeguarded.

[CL 3](#) suggests the interpretation should address the decision on whether or not to implement an accounting standard:

- The suggestion is outside the purview of this interpretation. The decision to implement an accounting standard would be made prior to performing accounting standards implementation services.
- The decision to implement an accounting standard is clearly a management responsibility.

[CL 6](#) suggests the interpretation should address the roles and responsibilities of a member in business related to the implementation of an accounting standard:

- The roles and responsibilities of members in business do not need to be addressed in this interpretation because the interpretation addresses threats to independence in the performance of implementation services.
- An interpretation addressing the implementation of accounting standards would not be necessary in the “Member in Business” section of the code, as, the member in business would not have to be independent of the employer and the member in business is already bound by the code to be objective, act with integrity, and comply with all applicable professional standards.

[CL 6](#) requests that the cumulative effect be addressed, especially if a member in public practice assists with multiple implementations of accounting standards.

This is already addressed in the “[Cumulative Effect on Independence When Providing Multiple Nonattest Services](#)” interpretation.

[CL 11](#) suggests a stronger emphasis in the interpretation on a member’s obligation related to the requirements to have someone at the attest client with the skills, knowledge and/or experience (SKE) oversee the nonattest service:

- During development of the exposure draft, the task force decided not to emphasize SKE

in this interpretation so it would be consistent with other nonattest interpretations.

- The task force did discuss adding a Q & A related to SKE and decided instead to expand upon the extant Q & A 9 under the suitable skill, knowledge, and/or experience section of the [Frequently Asked Questions: Nonattest Services](#).

Question for the committee

1. Does the committee agree that these comments need not be addressed in the interpretation?

Suggested revisions to proposed interpretations

Paragraph .01

[CL 14](#) suggests rewording the opening paragraph. The task force does not recommend changing the opening paragraph because the suggestion is inconsistent with the code's drafting conventions.

Paragraph .02— Permissible activities

[CL 15](#) suggests incorporating .02*h* into .02*c* and adding guidance that allows the member to make recommendations and prepare the analysis related to impact of the accounting standard on the entity's accounting policies, procedures, and internal controls.

The revisions suggested by [CL 15](#) to .02*c* also address a suggestion by another commenter ([CL 4](#)), which recommends including that a member could assist in the drafting of management's policy document related to the adoption of the accounting standard.

[CL 4](#) also suggests allowing members to recommend transition calculations based on the application of the new implemented accounting standard subject to management's review and approval. The task force agrees the proper place to incorporate this recommendation is paragraph .02*c*. The task force recommends the following revisions to .02*c*:

- c. ***provide advice and recommendations related to the application of the accounting standard, including***
 - i. ***analyzing and advising management on the potential impact of the accounting standard on the entity's accounting policies, procedures, and internal controls.***
 - ii. ***recommending possible revisions to existing policies, procedures, and***

internal controls.

- iii. assisting the *attest client* with summarizing the attest client's analysis and policies related to the accounting position under the standard.
- iv. **proposing transition calculations based on application of the accounting standard subject to management's review and approval.**

[CL 15](#) believes that paragraph .02d is unclear about whether a member may assist management in developing the overall project plan timeline. [CL 15](#) believes that the extant code allows for such assistance along with providing observations and recommendations. [CL 15](#) recommended the following revision to paragraph .02d and the task force agrees:

- d. provide observations and recommendations on management's **existing overall project plan timeline or assist management in developing an** overall project plan timeline to adopt the accounting standard

[CL 4](#) suggests adding additional language to .02f to clarify what services a member may provide regarding templates.

[CL 12](#) suggests defining "discrete tools" or providing more examples so it will be applied consistently across the interpretations.

[CL 14](#) also suggests a new Q & A to provide more guidance on the development of a discrete tool for assisting with accounting standards implementation, especially as it relates to the development or implementation of templates.

The task force recommends the revisions be incorporated, but instead of a new Q & A, a link will direct members to the [information systems services practice aid](#). The task force recommends the following revisions to paragraph .02f:

- f. assist the *attest client* in developing implementation templates **or provide the attest client with firm-developed templates or tools**, including those related to specific calculations under the standard that meet the ~~discrete tool~~ exception in paragraph .03a of the "[Information Systems Services](#)" interpretation [1.295.145] under the "Independence Rule", **provided the attest client's management understands the nature of any underlying calculations and the impact the results will have on the financial statements**

[CL 14](#) recommends deleting the word "technology" in .02i. The task force recommends the following revision to paragraph .02i:

- i. provide recommendations related to existing or new information ~~technology~~ systems as a result of the accounting standard

Question for the committee

2. Does the committee agree with the revisions to paragraph .02?

Paragraph .03 — Impermissible activities

[CL 12](#) suggests that the phrase in paragraph .03a "leads any implementation team at the attest client" could lead to confusion about the composition of the implementation team. The commenter believes it would be clearer by changing "any implementation team at the attest client" to "any *attest client implementation team*".

[CL 14](#) suggests adding "supervises" because a member should not lead or supervise the implementation team. The task force recommends the following revisions to paragraph .03a:

- a. leads **or supervises** any **attest client** implementation team ~~at the attest client~~

[CL 14](#) suggests adding "which recommendations to prioritize" to paragraph .03b to further clarify the impermissible activity. The task force agrees with the following recommended revision:

- b. makes decisions on **which recommendations to prioritize or** how to implement the accounting standard

[CL 15](#) suggests minor edits to paragraph .03d so the interpretation will be more consistent with the extant "Management Responsibilities" interpretation. In paragraph .03d of the exposed interpretation, there is no reference to the concept of prohibition of accepting responsibility. The task force agrees with the suggested revisions.

[CL 14](#) suggests adding "*as a result of the accounting standard*" to the end of paragraph .03d. The task force does not believe this addition is necessary as the entire interpretation relates to accounting standards implementation. Therefore, the task force recommends the following revisions to paragraph .03d:

- d. **accepting responsibility for designing** ~~designs new or redesigns~~ **redesigning** existing internal controls over financial reporting

[CL 14](#) suggests adding "*or develop*" after "designs" at the beginning of paragraph .03e and "*as a result of the accounting standard*" to the end of paragraph .03e. The task force agrees with adding "*or develop*" but doesn't believe the of addition "*as a result of the accounting standard*" is necessary as the entire interpretation relates to accounting standards implementation. Therefore, the task force recommends the following revision to paragraph .03e:

e. designs **or develops** new or redesigns existing financial information systems

Question for the committee

3. Does the committee agree with the revisions to paragraph .03?

Effective date

Fourteen of the fifteen commenters commented on the effective date.

- Nine commenters ([CL 2](#), [CL 7](#), [CL 8](#), [CL 10](#), [CL 11](#), [CL 12](#), [CL 13](#), [CL 14](#) and [CL 15](#)) agree with the 90-day delayed effective date. One commenter also recommended adding that early implementation be permitted.
- Three commenters ([CL 3](#), [CL 4](#) and [CL 9](#)) do not believe a delay in the effective date is necessary.
- Two commenters ([CL 5](#) and [CL 6](#)) believe the effective date should be delayed by six months.

The task force recommends leaving the proposed 90-day delayed effective date.

Question for the committee

4. Does the committee agree with keeping the 90-day delayed effective date?

Action needed

The committee is asked to adopt the proposed new interpretation in agenda item 2D as amended with a 90-day delayed effective date.

Communications plan

Task force staff will work with the division's communications manager to develop an appropriate communications plan.

Materials presented

- Agenda item 2B: Comment letter summary
- Agenda item 2C: Proposed new interpretation “Assisting Attest Clients With Implementing Accounting Standards” (redline)
- Agenda item 2D: Proposed new interpretation “Assisting Attest Clients With Implementing Accounting Standards” (clean)

Comment letter summary

Proposed “Assisting Attest Clients With Implementing Accounting Standards” interpretation of the “Independence Rule”

Exposure draft dated September 20, 2021

General comments		
CL 1	KPMG Supports	No recommended changes.
CL 2	AICPA PCPS Technical Issues Committee (TIC) Supports	No recommended changes.
CL 3	TXCPA – Professional Standards Committee Supports with recommended changes	<p>Recommends a clearer delineation between what does and does not impair independence.</p> <p>Also recommends making it more clear that management must make a decision about whether an accounting standard is implemented or not and this decision should be documented.</p>
CL 4	BDO USA LLP Supports with recommended changes	<p>Recommends consideration of adding the following to list of permissible activities:</p> <ul style="list-style-type: none"> assist the attest client in drafting management’s policy document on the new accounting standard based on client management’s approved positions regarding accounting under the new standard. identify and evaluate accounting policy gaps from current GAAP to the new accounting standard and recommend transition calculations subject to

		<p>management’s review and approval</p> <p>BDO recommends the following revision to paragraph .02f:</p> <p><i>f. assist the attest client in developing or implementing templates or provide the attest client with firm-developed templates or tools, including those related to specific calculations under the standard that meet the discrete tool exception in paragraph .03a of the “Information Systems Services” interpretation [1.295.145] under the “Independence Rule,” provided client management understands the nature of any underlying calculations and the impact the results will have on the financial statements</i></p>
CL 5	RSM US LLP Supports	No recommended changes
CL 6	New York State Society of CPA (NYSSCPA) Supports with recommended changes	<p>Recommends adding guidance for members in business related to their roles and responsibilities if they engaged a member to provide accounting standards implementation services.</p> <p>NYSSCPA also wants there to be a focus in the guidance on analyzing the cumulative effect of a member providing multiple accounting standard implementation services.</p>
CL 7	Ohio Auditor of State Supports	No recommended changes
CL 8	Carr Riggs & Ingram Supports	No recommended changes
CL 9	Four Fifteen Group	No recommended changes

	Supports	
CL 10	Crowe LLP Supports	No recommended changes
CL 11	NASBA Supports with recommended changes	<p>Recommends more examples of impermissible services to overcome the appearance of bias towards practitioners providing the services since there are twice as many examples of permissible services than impermissible ones.</p> <p>NASBA also wants emphasis added on the member's obligations related to SKE to oversee the implementation services.</p>
CL 12	CliftonLarsonAllen LLP Supports with recommended changes	<p>Recommends definition or examples for discrete tools so the term is applied consistently across interpretations.</p> <p>Paragraph .03a states that independence would be impaired if a member "leads any implementation team at the attest client." CLA assumes that this phrase is referring to an implementation team comprised of (or in the place of) the attest client's staff (versus the member's internal team comprised of the member's staff who may work alongside the attest client's implementation team), and as such a service would be considered managing the client's project. CLA proposes that the phrase be revised as "leads any client implementation team at the attest client." to avoid any confusion.</p>
CL 13	CohnReznick LLP Supports	No recommended changes.
CL14	Grant Thornton LLP Supports with recommended changes	Recommends developing nonauthoritative guidance (Qs & As) to accompany the new interpretation. They recommend a discussion on the development of a discrete tool for assisting with accounting standards implementation especially as it relates to the development or implementation of templates (see paragraph .03f).

		<p>Grant Thornton recommends the following revisions:</p> <p>.01 When a member assists an attest client with planning and executing the implementation of an accounting standard, self-review Self-review or management participation <i>threats</i> to compliance with the “Independence Rule” [1.200.001] may exist when a member assists an attest client with planning and executing the implementation of an accounting standard.</p> <p>.02i provide recommendations related to existing or new information technology systems as a result of the accounting standard.</p> <p>.03a leads or supervises any implementation team at the attest client.</p> <p>.03b makes decisions on which recommendations to prioritize or how to implement the accounting standard.</p> <p>.03d designs new or redesigns existing internal controls over financial reporting as a result of the accounting standard</p> <p>.03e designs or develops new or redesigns existing financial information systems as a result of the accounting standard</p>
<p>CL 15</p>	<p>Deloitte LLP</p> <p>Supports with recommended changes</p>	<p>Recommends 3 edits to the proposed new interpretation.</p> <ol style="list-style-type: none"> 1. Deloitte recommends combining .02h into .02c since it would make it more clear that the member could also perform the analysis of the potential impact of the accounting standard. Deloitte believes it is acceptable to

		<p>perform this analysis and not just make recommendations.</p> <p>.02c. provide advice and recommendations related to application of the standard, including:</p> <ul style="list-style-type: none"> • analyze and advise management on the potential impact of the accounting standard on the entity’s accounting policies, procedures, and internal controls • recommend possible revisions to existing policies, procedures, and internal controls • assist the attest client with summarizing the attest client’s analysis and policies related to the accounting positions under the standard. <p>2. Deloitte recommends some minor edits to .02d. Deloitte said .02d was unclear whether a member may assist management in developing an overall project plan timeline. Deloitte believes that current code allows for such assistance in addition to providing observations and recommendations on the project plan. Therefore, they recommend the following revision:</p> <p><i>.02d provide observations and recommendations on management’s existing overall project plan timeline or assist management in developing an overall project plan timeline to adopt the accounting standard.</i></p> <p>3. Deloitte recommends minor edits to .03d in order for the interpretation to be more consistent with the extant 1.295.030 Management Responsibilities. .03d makes no reference to the concept of prohibition of accepting responsibility. Deloitte recommends the following revisions:</p> <p><i>.03d accepting responsibility for designing designs new or redesigning redesigns existing internal controls over financial reporting.</i></p>
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Q8. Do you agree with the need for a delayed effective date?

CL 2	AICPA PCPS Technical Issues Committee (TIC)	Supports recommended 90-day delayed effective date.
CL 3	TXCPA – Professional Standards Committee	Recommends that a delayed effective date is not necessary.
CL 4	BDO USA LLP	Recommends that a delayed effective date is not necessary.
CL 5	RSM US LLP	Recommends a delayed effective date of 6 months to allow members the amount of time necessary to adopt policies, procedures and implementation guidance, and communicate and train partners and professional employees.
CL 6	NYSSCPA	Recommends a delayed effective date of 6 months to allow firms time to analyze and implement these changes.
CL 7	Ohio Auditor of State	Supports recommended 90-day delayed effective date.
CL 8	Carr Riggs & Ingram	Supports recommended 90-day delayed effective date.
CL 9	Four Fifteen Group	Recommends that a delayed effective date is not necessary.
CL 10	Crowe LLP	Supports recommended 90-day delayed effective date.
CL 11	NASBA	Supports recommended 90-day delayed effective date.

CL 12	CliftonLarsenAllen LLP	Supports recommended 90-day delayed effective date.
CL 13	CohnReznick LLP	Supports recommended 90-day delayed effective date. Requests to add that early adoption be permitted.
CL 14	Grant Thornton LLP	Supports recommended 90-day delayed effective date.
CL 15	Deloitte LLP	Supports recommended 90-day delayed effective date.

Proposed new interpretation “Assisting Attest Clients With Implementing Accounting Standards” (redline)

Proposed additions made to the exposure draft appear in ***bold italic***. Deletions appear in ~~strikethrough~~.

1.295.113 Assisting Attest Clients With Implementing Accounting Standards

- .01 When a *member* assists an *attest client* with planning and executing the implementation of an accounting standard, self-review or management participation *threats* to compliance with the “[Independence Rule](#)” [1.200.001] may exist.
- .02 If a *member* applies the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] of the “Independence Rule” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired*. For example, a *member* may
- a. develop and provide training to *attest client* personnel on the effects of the standard
 - b. research, provide advice, make recommendations, and assist management in identifying *financial statement* account balances, contracts and transactions to be assessed under the standard
 - c. ***provide advice and recommendations related to the application of the accounting standard, including:***
 - i. ***analyzing and advising management on the potential impact of the accounting standard on the entity’s accounting policies, procedures, and internal controls.***
 - ii. ***recommending possible revisions to existing policies, procedures, and internal controls.***
 - iii. *assisting* the *attest client* with summarizing the *attest client’s* analysis and policies related to the accounting position under the standard.
 - iv. ***proposing transition calculations based on application of the accounting standard subject to management’s review and approval.***
 - d. provide observations and recommendations on management’s ***existing overall project plan timeline or assist management in developing an*** overall project plan timeline to adopt the accounting standard

- e. assist management in drafting implementation strategies or methods used to implement the accounting standard
- f. assist the *attest client* in developing implementation templates **or provide the attest client with firm-developed templates or tools**, including those related to specific calculations under the standard that meet the ~~discrete tool~~ exception in paragraph .03a of the “[Information Systems Services](#)” interpretation [1.295.145] under the “Independence Rule”, **provided the attest client’s management understands the nature of any underlying calculations and the impact the results will have on the financial statements**
- g. propose standard journal entries or adjustments to existing journal entries necessary for adoption of the standard, subject to *attest client* approval in accordance with paragraph .02e of the “[Bookkeeping, Payroll, and Other Disbursements](#)” interpretation [1.295.120]
- ~~h. provide recommendations related to application of the standard, including those related to possible revisions to existing policies and procedures and improvements to existing internal controls~~
- i. provide recommendations related to existing or new information technology systems as a result of the accounting standard

.03 However, *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* by the application of *safeguards*, and *independence* would be *impaired*, if, for example, a *member*

- a. leads **or supervises** any *attest client* implementation team ~~at the attest client~~
- b. makes decisions on **which recommendations to prioritize or** how to implement the accounting standard
- c. sets any policy or procedures related to the accounting standard
- d. **accepting responsibility for designing** ~~designs new or redesigns~~ **redesigning** existing internal controls over financial reporting
- e. designs **or develops** new or redesigns existing financial information systems

Nonauthoritative questions and answers regarding suitable skill, knowledge, and experience are available at

<https://us.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/nonattestservicesfaqs.pdf>.

A nonauthoritative practice aid related to Information Systems Services interpretation is available at

<https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/ISSPracticeAid.pdf>.

Proposed new interpretation “Assisting Attest Clients With Implementing Accounting Standards” (clean)

1.295.113 Assisting Attest Clients With Implementing Accounting Standards

.01 When a *member* assists an *attest client* with planning and executing the implementation of an accounting standard, self-review or management participation *threats* to compliance with the “[Independence Rule](#)” [1.200.001] may exist.

.02 If a *member* applies the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] of the “Independence Rule” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired*. For example, a *member* may

- a. develop and provide training to *attest client* personnel on the effects of the standard
- b. research, provide advice, make recommendations, and assist management in identifying *financial statement* account balances, contracts and transactions to be assessed under the standard
- c. provide advice and recommendations related to the application of the accounting standard, including:
 - i. analyzing and advising management on the potential impact of the accounting standard on the entity’s accounting policies, procedures, and internal controls.
 - ii. recommending possible revisions to existing policies, procedures, and internal controls.
 - iii. assisting the *attest client* with summarizing the *attest client’s* analysis and policies related to the accounting position under the standard.
 - iv. proposing transition calculations based on application of the accounting standard subject to management’s review and approval.
- d. provide observations and recommendations on management’s existing overall project plan timeline or assist management in developing an overall project plan timeline to adopt the accounting standard
- e. assist management in drafting implementation strategies or methods used to implement the accounting standard
- f. assist the *attest client* in developing implementation templates or provide the *attest*

- client* with firm-developed templates or tools, including those related to specific calculations under the standard that meet the exception in paragraph .03a of the “[Information Systems Services](#)” interpretation [1.295.145] under the “Independence Rule”, provided the *attest client*’s management understands the nature of any underlying calculations and the impact the results will have on the financial statements
- g. propose standard journal entries or adjustments to existing journal entries necessary for adoption of the standard, subject to *attest client* approval in accordance with paragraph .02e of the “[Bookkeeping, Payroll, and Other Disbursements](#)” interpretation [1.295.120]
 - h. provide recommendations related to existing or new information systems as a result of the accounting standard
- .03 However, *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* by the application of *safeguards*, and *independence* would be *impaired*, if, for example, a *member*
- a. leads or supervises any *attest client* implementation team
 - b. makes decisions on which recommendations to prioritize or how to implement the accounting standard
 - c. sets any policy or procedures related to the accounting standard
 - d. accepting responsibility for designing new or redesigning existing internal controls over financial reporting
 - e. designs or develops new or redesigns existing financial information systems

Nonauthoritative questions and answers regarding suitable skill, knowledge, and experience are available at

<https://us.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/nonattestservicesfaqs.pdf>.

A nonauthoritative practice aid related to Information Systems Services interpretation is available at

<https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/ISSPracticeAid.pdf>

SEC convergence

Task force members

Jennifer Kary (chair), Cathy Allen, Anna Dourkourekas, Anika Heard, William McKeown, Katherine Savage, Lawrence Wojcik

Observers

Sonia Araujo, Chris Cahill, George Dietz, Faith Kim, Elizabeth McKneely, Jan Neil, Karen Liu Pham, Bella Rivshin

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Task force charge

To evaluate the amended rules the SEC issued on October 16, 2020 and to determine whether any revisions to the AICPA code are required.

Reason for agenda item

To seek adoption of the proposals from the exposure draft on "[Proposed revised interpretations and definition: Loans, acquisitions, and other transactions](#)" dated October 5, 2021. In addition, the task force recommends that the temporary policy statement be rescinded when the proposed revisions become effective.

Task force activities

The task force discussed the ten comment letters received from the exposure draft and recommends certain revisions as outlined in the following sections.

Overall commenters were supportive of the proposal and no commenters believed there were other components of the amended SEC rules that PEEC should consider.

With respect to the permitting student loans from an attest client, all commenters agreed that the proposal should not limit whose expense are covered by the loans.

Short period of time

Two commenters ([CL 2](#) and [CL 9](#)) are supportive of paragraph .10b but did not specify whether they believe parameters should be provided in nonauthoritative guidance.

Reasonable instead of "short period of time"

Three commenters ([CL 1](#), [CL 5](#) and [CL 8](#)) believe it would be better to describe this safeguard differently. All recommend using the concept of "reasonable" instead of "short period of time" and two highlight the importance of the safeguard requiring that the attest report be issued.

- [CL 1](#) recommends the safeguard require the firm issue the attest report as soon as *reasonably possible* but no later than six months after the effective date of the acquisition or other transaction.
- [CL 5](#) recommends that an emphasis on a reasonable amount of time, dependent on the engagement type, in conjunction with a members' professional judgment would be more appropriate. The commenter believes the emphasis on a "short period of time" may leave out considerations for different engagement types as what is a short period of time for one engagement may not be short for another type of engagement. The commenter is also concerned that professionals will inappropriately apply the "short period of time" used in the staff augmentation arrangements interpretation which includes a rebuttable presumption of 30 days.
- [CL 8](#) recommends the phrase be replaced with a "reasonable period of time" because they are concerned the proposed phrase may raise more questions (e.g., 10 days, 20 days, etc.) and would allow for the reasonable third-party concept to be used to assist members in determining a reasonable timeframe in completing the attest procedures.

Provide nonauthoritative guidance

Six commenters ([CL 3](#), [CL 4](#), [CL 6](#), [CL 7](#), [CL 8](#) and [CL10](#)) believe PEEC should provide parameters around the period of time (whether it be a "short period of time" or a "reasonable period of time"). Of these commenters

- One ([CL 3](#)) did not specify where the clarification should appear.
- One ([CL 7](#)) believes the clarification should be done in the interpretation because without it, the phrase will be open to the interpretation of peer reviewers and juries. They believe that generally, under 90 days be considered short-term except in the case of unusual circumstances such as subsequent events. They also recommend that the safeguard clarify that "completing remaining attest procedures" includes the issuance of the audit report.
- Four ([CL 4](#), [CL 6](#), [CL 8](#) and [CL 10](#)) believe the clarification should be done in nonauthoritative guidance.
 - [CL 4](#) believes the meaning should be determined based upon the facts and circumstances using the member's professional judgement and believes the terminology without parameters is consistent with the SEC Rule and the IESBA Code. This commenter believes placing parameters around a subjective time frame such as a "short period of time" may also inadvertently grant more relief than intended in some situations where a shorter time frame is reasonable in the circumstances.
 - [CL 6](#) notes that since the auditor is not in complete control over when an audit will be completed, a bright-line measurement may cause unnecessary hardship

in complying with the interpretation. As such, the nonauthoritative guidance could explain that the remaining attest procedures should not be a long-term process but allow the member reasonable time to complete the remaining attest procedures with appropriate quality without a bright-line measurement period deadline. They note that similar guidance was issued for the “reasonable period of time” provision in the Hosting Services interpretation¹.

- o [CL 8](#) believes it may be difficult to provide specific parameters since each client situation may be different. Therefore, they recommend providing examples or scenarios to demonstrate how different facts and circumstances may lead members to applying a different time period to complete the attest procedures including situations when client, not the auditor, is the reason for the delay in completing the audit.
- o [CL 10](#) also believes using an example would help members apply this provision. In addition, they recommend that the example also address the application of paragraph .10a which requires that the member has completed a significant amount of work on the engagement.

Task force recommendations

Paragraph .10a

The task force believes that determining whether a significant amount of work has been completed will depend upon the remaining procedures as compared to the overall engagement procedures. The task force believes this clarification could be added to the end of paragraph .10a or incorporated into a FAQ.

- 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***

¹ The Ethics Division issued nonauthoritative guidance in the form of a Question and Answer to assist members with applying the provision in the [Hosting Services interpretation](#) “that to avoid providing hosting services, members should terminate an attest client’s access to the data or records in the portal within a *reasonable period* after the conclusion of the engagement.” The answer explains that to determine a reasonable period “Members should use professional judgment when determining what a reasonable period of time would be for the specific data or records. The period of time should be practical in that it provides the client sufficient time to retrieve the information from within the portal and not cause the member undue hardship. The period of time should also be limited in duration and should not be extensive. A period of time that is consistent with the member’s documentation retention policy or a statute of limitations that continues for multiple years would likely be considered extensive and therefore not limited in duration. For some situations, the member may conclude that no undue hardship would occur within a relatively brief period of time, such as 60 days, and therefore this would be a reasonable period of time for the client to retrieve data or records before access is terminated. In other circumstances, a reasonable period of time may be closer to a year in order to avoid undue hardship for the member.

the overall engagement procedures.

or

Question 1: How should a member determine whether a significant amount of work has been completed?

Answer 1: The member should compare the remaining procedures to be completed to the overall engagement procedures to be performed.

Paragraph .10b

Although IESBA uses the “short period of time” concept in its’ standard the task force believes members will better understand what is intended if the AICPA safeguard indicates that the period should be a reasonable one given the facts and circumstances. The task force does not believe the time period will differ from the IESBA standard; however, the task force is concerned that if the “short period of time” language remains in the interpretation, members may equate that with the rebuttable presumption that a short period of time would not exceed 30 days as found in the [Staff Augmentation Arrangements](#) interpretation.

The task force also recommends paragraph .10b stipulate that the member plans to issue the attest report within a reasonable period of time. Following is the task force’s recommendation which also appears in agenda item 3C in yellow highlight.

- b.** The member or member’s firm expects to complete the remaining financial statement attest procedures **and issue the attest report** within a **short reasonable** period of time. **A reasonable period of time will be dependent upon facts and circumstances.**

The task force recommends a nonauthoritative Q and A be issued to provide examples of facts and circumstances that could impact the time.

Question 2: What are some examples of facts or circumstances that could impact whether the time period is reasonable?

Answer 2: Some examples include:

- The type of engagement being performed.
- Client delays including the occurrence of subsequent events.
- Resource availability.

Questions for the committee

1. Does the committee agree with the revision to paragraph .10a or does it believe this guidance should be addressed through a Q and A?
2. Does the committee agree with the revisions to paragraph .10b and related Q and A?

Consumer loans

To avoid confusion and to use consistent terminology, [CL 2](#) recommends the phrase “consumer loans” in paragraph .04d of the “Loans and leases with lending institutions” interpretation be replaced with “unsecured loans”. [CL 2](#) believes that there are no meaningful differences to the threats to independence if consumer loans are intended to be a subset of unsecured loans and that the safeguards described should be equally effective for all unsecured loans.

[CL 2](#) also recommends adding additional examples of unsecured loans including “small business loans for an immediate family member” and “general lines of credit”. They believe that adding “general lines of credit” to the examples in the interpretation would effectively clarify that the interpretation encompasses all consumer financing that borrowers routinely obtain for personal consumption.

Following is how paragraph .04d reads in the exposure draft:

- d. ~~Aggregate outstanding balances from~~ **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.

Task force recommendation

The task force does not recommend revising this provision. It was noted that immaterial unsecured loans discussed in paragraph .02 are only grandfathered, they are not permitted for covered members to obtain while they are a covered member. A covered member could not get an unsecured loan – material or immaterial – unless that unsecured loan was a consumer loan covered by paragraph .05. If a consumer loan exceeds \$10k, then is it not permitted – regardless of whether it is secured or unsecured.

Question for the committee

3. Does the committee agree with the task force's recommendation not to revise the phrase "consumer loans"?

Beneficial owner

[CL 1](#) recommends the proposal conform the definition of "beneficial owner" to 17 CFR 240.13d-3(a)² since the intent is to conform the definition to that term as used in Rule 2-01(c)(1)(ii)(A) of Regulation S-X. 17 CFR 240.13d-3(a) reads as follows:

For the purposes of sections 13(d) and 13(g) of the Act a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares:

- (1) Voting power which includes the power to vote, or to direct the voting of, such security; and/or,
- (2) Investment power which includes the power to dispose, or to direct the disposition of, such security.

The proposed definition of beneficial owner reads as follows:

.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.

Task force recommendation

The task force does not recommend revising this provision. The task force believes the definition will be better understood by members as drafted as opposed to drafting it in legalese.

Question for the committee

4. Does the committee agree with the task force's recommendation not to revise the definition of "beneficially owned, beneficial ownership interest"?

² The full text of 17 CFR 240.13.d-3 is found in agenda item E.

Documentation

[CL 1](#) and [CL 3](#) recommend that paragraph .12 require the member or member's firm document items a-d.

Task force recommendation

The task force does not recommend revising this provision. The task force believes the interpretation should only require members consider documentation and notes that documentation is only required in a few instances in the code.

Question for the committee

5. Does the committee believe documentation should be required?

Removal of 10% rule

[CL 7](#) has a concern with replacing the 10% rule in paragraph .02 "Client Affiliates" interpretation and with "significant influence". Although they understand that the standards are moving toward the use of professional judgment rather than static numbers, they are concerned this will lead to inconsistent application and possible issues during peer reviews. They recommend the deciding factor be whether the owner may impact a financial decision.

[CL 3](#) is concerned that third parties using financial statements often have no knowledge of how or whether an officer or director can affect decision making. A loan to or from a prominent officer or director on its face raises a question about independence and this provision does not address that concern. From an enforcement standpoint the provision as drafted would be effective. But from a third party's perspective as a user of the financial statements, the presence of these loans can raise issues as to the independence of the auditor and so the exception to the rule should not be allowed.

The AICPA's definition of significant influence is as defined by FASB ASC 323-10-15 which reads as follows:

Ability to exercise significant influence over operating and financial policies of an investee may be indicated in several ways, including the following:

- a. Representation on the board of directors
- b. Participation in policy-making process
- c. Material intra-entity transactions
- d. Interchange of managerial personnel
- e. Technological dependency
- f. Extent of ownership by an investor in relation to the concentration of other shareholders (but substantial or majority ownership of the voting stock of an

investee or another investor does not necessarily preclude the ability to exercise significant influence over the investor).

Task force recommendation

The task force believes moving to “significant influence” versus a bright-line 10% rule is still appropriate and believes there is adequate guidance to assist members in applying the rule and does not recommend making the change.

Question for the committee

6. Does the committee agree the 10% rule should be replaced by “significant influence”?

Unpaid fees

[CL 7](#) believes that unpaid audit fees are effectively loans to the audit client and should be included in this proposed revision.

Task force recommendation

The Unpaid Fees task force considered this comment and is not proposing a revision to address the concern and noted the code’s definition of a loan stipulates that a loan would include “... a stated or implied rate of return to the lender.”

Question for the committee

7. Does the committee agree with the Unpaid Fees task force’s recommendation not to revise?

Financial interest in private company

[CL 7](#) would like for consideration to be given to whether the audit client is a public or private entity, as it may be more difficult to dispose of private interest in a private company.

Task force recommendation

The task force does not believe this is a frequent issue that requires further relief. As such, the task force believes that the proposed safeguard provided for in paragraph .09a of the “Client Affiliates” interpretation provides adequate flexibility and does not recommend further flexibility be provided. The safeguard reads as follows:

The interest in or relationship with the new [affiliate](#) that would impair independence be ended as soon as reasonably possible but no later than six months after the effective

date of the acquisition or other transaction is reasonable.

Question for the committee

8. Does the committee agree that additional flexibility is not needed for interests in private companies?

Editorial suggestions

[CL 1](#) proposes three editorial revisions to the “Client Affiliates” interpretation:

- Change the word “Include” to “Cover” in the headings preceding paragraphs .06 and .10. The task force recommends this edit be made.
- Revise paragraph .06c to read as follows:

The member or member’s firm **does will** not ~~continue to~~ provide ~~financial statement~~ attest services to the existing financial statement attest client for **financial statements covering** periods after the effective date of the acquisition.

The task force does not recommend this revision be made because the “Client Affiliates” interpretation only applies to financial statement attest clients and so the prohibition does not need to be extended to non-financial statement attest services.

- Revise paragraph .07a to read as follows:

The member or member’s firm should identify and evaluate previous and current interests in and relationships with the new affiliate ~~that, taking into account any~~ **including** actions taken to address the threats 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.

The task force believes these edits add clarity and so the revisions appear in yellow highlight in agenda item 3C.

Question for the committee

9. Does the committee agree with the task force’s recommendations?

[CL 2](#) identified three instances where they believe the proposal uses terminology that is not consistent with the AICPA Code.

- Recommends the phrase “interests or relationships” in paragraph .05 of the “Client Affiliates” interpretation be replaced by “relationships or circumstances” since this is the convention used in the AICPA’s conceptual frameworks.

The task force notes that the phrase “interests or relationships” was used to be consistent with the phrase used in paragraph .01 of the “Client Affiliates” interpretation and so does not recommend the revision be made. Paragraph .01 reads

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].

- [CL 2](#) notes that paragraphs .08a, .08b, .10d of the “Client Affiliates” interpretation require members to evaluate the “level of the threats” created by the interest or relationship with the new affiliate, yet the convention used by the AICPA’s conceptual framework is “significance of threats” and whether relationships or circumstances give rise to threats that can be reduced to an acceptable level. As such, they recommend the term “level” be replaced with “significance” so that the proposed revision is consistent with terminology used elsewhere in the code.

The task force believes these editorial revisions should be made and so the revisions appear in yellow highlight in agenda item 3C.

- [CL 2](#) also recommends that “transitional measures” be replaced with “safeguards” in paragraphs .09c and .12 of the “Client Affiliates” interpretation.

The task force notes that the phrase “transitional measures” is consistent with the IESBA code. The IESBA code includes examples of transitional measures³ which the task force believe are safeguards. As such, the task force recommends the replacement be made even though it would result in a different terminology being used by the AICPA and IESBA. These proposed revisions appear in yellow highlight in agenda item 3C.

Question for the committee

10. Does the committee agree with the task force’s recommendations?

[CL 10](#) proposes three clarifying and conforming suggestions to the “Client Affiliates”

³ Paragraph 400.73 A1 of the IESBA code states: Examples of such transitional measures include:

- Having a professional accountant review the audit or non-assurance work as appropriate.
- Having a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is equivalent to an engagement quality control review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

interpretation:

- Clarify that the member will not continue to provide services to the financial statement attest client as well as the acquirer under this scenario:

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 Include Periods After the Effective Date of the Acquisition

.06c. The member or member's firm will not continue to provide financial statement attest services to the existing financial statement attest client **or the acquirer** for periods after the effective date of the acquisition.

- Clarify that the financial statement attest services may be performed for the financial statement attest client as well as the acquirer in cases where the financial statement attest client is being acquired.

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 (**or its acquirer where the financial statement attest client is being acquired**) after the effective date of the acquisition or other transaction, the following conditions should be met:

- Conform to the drafting conventions used above in the heading to paragraph .06 and the guidance in paragraph .07.

The task force does not recommend these revisions be made as the guidance is only intended to cover the entity being acquired. Any relationships with or interests in the acquirer will be evaluated separately.

Question for the committee

11. Does the committee agree with the task force's recommendation?

Effective date

All but one commenter ([CL 1](#)) concur with the proposed three-month delayed effective date with early implementation allowed. This commenter does not believe three months provides enough

time to adopt policies, procedures and implementation guidance, and communicate and train partners and professional employees, especially if publication occurs during the first or fourth quarters, thereby potentially impacting "busy season". They recommend a six-month delayed effective date.

The task force is sympathetic to the request for additional time to revise firm policies and train staff. As such, the task force recommends the proposal be effective six months after notice is given in the Journal of Accountancy with early implementation allowed.

Question for the committee

12. Does the committee agree with the task force's recommendation?

Action needed

The committee is asked to adopt the proposals in agenda item 3C as amended with a six-month delayed effective date and early implementation allowed.

In addition, the committee is asked to approve rescinding the temporary policy statement when the proposed revisions become effective.

Communications plan

Task force staff will work with the division's communications manager to develop a communication plan.

Materials presented

- Agenda item 3B: Comment letter summary
- Agenda item 3C: Proposals

Comment letter summary

Proposed revised interpretations and definition: Loans, acquisitions, and other transactions Exposure draft dated October 5, 2021

Question a: Are there any other components of the amended SEC rules that PEEC should consider converging with before it rescinds its temporary policy statement and, if so, why?		
CL 1	RSM	The firm did not specify that there are other components that PEEC should consider converging with before rescinding the temporary policy statement.
CL 2	KPMG	The firm concurs with PEEC's position.
CL 3	NYSSCPA	The society does not believe there are other components that PEEC should consider converging with before rescinding the temporary policy statement.
CL 4	Deloitte	The firm did not specify that there are other components that PEEC should consider converging with before rescinding the temporary policy statement.
CL 5	TIC	The committee does not believe there are other components that PEEC should consider converging with before rescinding the temporary policy statement.
CL 6	Crowe	The firm does not believe there are other components that PEEC should consider converging with before rescinding the temporary policy statement.
CL 7	Professional Standards Committee of TXCPA	The committee believes the components of the amended SEC rules that the PEEC should consider before converging have been adequately considered.

CL 8	GT	The firm agrees with the components of the amended SEC rules that were considered and does not have any other suggestions for additional components to consider before PEEC rescinds its temporary policy statement.
CL 9	CliftonLarsonAllen	The firm supports the proposal.
CL 10	BDO	The firm does not believe there are other components that PEEC should consider converging with before rescinding the temporary policy statement.
CL 11	NASBA	Comment letter expected on February 4, 2022.

Question b: Do you agree the proposal should not limit whose expenses are covered by the student loan and why or why not?		
CL 1	RSM	The firm agrees the proposal should not limit whose expenses are covered by the student loan.
CL 2	KPMG	The firm agrees the proposal should not limit whose expenses are covered by the student loan.
CL 3	NYSSCPA	The society does not believe there is a reason to distinguish between whose expenses are covered by the loan.
CL 4	Deloitte	The firm agrees the proposal should not limit whose expenses are covered by the student loan.
CL 5	TIC	The committee agrees the proposal should not limit whose expenses are covered by the student loan as this more prescriptive requirement does not appear to fulfill an immediate

		need. The loan agreement is made between a specified borrower and lending institution. The detailed use of funds for student loans unnecessarily convolutes the consideration of who has legally entered the loan agreement.
CL 6	Crowe	The firm agrees the proposal should not limit whose expenses are covered by the member's student loan from an attest client. While lending arrangements create a self-interest threat, the firm believes the safeguards in paragraph .03 of the revised interpretation are appropriate to reduce the self-interest threat, regardless of whether the student loan is covering expenses of the covered member, immediate family members or other individuals.
CL 7	Professional Standards Committee of TXCPA	The committee agrees that the proposal should not limit whose expenses are covered by the student loan. The committee believes that the magnitude of the student loans is irrelevant and who actually repays the loan does not matter. The liability lies with the person whose name is on the loan.
CL 8	GT	The firm agrees with the proposal to not limit whose expenses are covered by the student loan. Applying the safeguards for only permitting loans that are acquired before an individual is a covered member, keeping payments current, and not allowing changes to the original terms of the loan, we agree that these loans can be grandfathered as the negotiations of the loan occurred prior to the borrower becoming a covered member. Members will need to determine that all threats can be reduced to an acceptable level with applying appropriate safeguards when evaluating the loans that exist prior to an individual becoming a covered member.
CL 9	CliftonLarsonAllen	The firm supports the proposal.
CL 10	BDO	The firm agrees the proposal should not limit whose expenses are covered by the student loan.
CL 11	NASBA	Comment letter expected on February 4, 2022.

Question c. - When an attest client or its affiliate is involved with a transaction that creates a new affiliate, the proposal provides some relief for existing interests and relationships that impair independence when certain safeguards are met. One such safeguard is that covered members believe they will be able to complete the remaining attest procedures in a “short period of time” (paragraph .10b). Do you believe PEEC should provide parameters around what is meant by a “short period of time,” or should this be left to members’ professional judgment? If you believe parameters should be provided, what should those parameters be and should they be included in the interpretation or in nonauthoritative guidance?

CL 1	RSM	The firm recommends that the proposal require the firm issue the attest report as soon as reasonable possible but no later than six months after the effective date of the acquisition or other transaction.
CL 2	KPMG	The firm concurs with PEEC’s position.
CL 3	NYSSCPA	The committee believes the phrase a “short period of time” is vague and should be defined or explained.
CL 4	Deloitte	The firm agrees the proposal should not contain parameters around the meaning of “short period of time”. They believe the meaning should be determined based upon the facts and circumstances using the member’s professional judgement. This terminology without parameters is consistent with the SEC Rule and the IESBA code. Placing parameters around a subjective time frame such as a “short period of time” may also inadvertently grant more relief than intended in some situations where a shorter time frame is reasonable in the circumstances. If PEEC decides to provide parameters, they should be provided as nonauthoritative guidance.
CL 5	TIC	The committee believes the emphasis on a “short period of time” may leave out considerations for different engagement types as what is a short period of time for one engagement may not be short for another type of engagement. Further, “short period of time” is used in the staff augmentation arrangements interpretation with a rebuttable

		presumption of 30 days which they do not believe is the intent here and would not want professionals inappropriately analogizing to that time frame. In lieu of defining or providing direction for what may constitute a “short period of time”, TIC believes an emphasis on a reasonable amount of time, dependent on the engagement type, in conjunction with a members’ professional judgment would be most appropriate.
CL 6	Crowe	The firm does not believe PEEC should provide parameters regarding “short period of time” within the interpretation as this may be viewed as a bright-line measurement. The firm believes “short period of time” addresses that the remaining attest procedures should not be a long-term process, and it allows the member reasonable time to complete the remaining attest procedures with appropriate quality without a bright-line measurement period deadline. The firm notes that since the auditor is not in complete control over when an audit will be completed, a bright-line measurement may cause unnecessary hardship in complying with the interpretation. Instead, the firm suggests issuing nonauthoritative guidance that includes a recommended time period for applying the “short period of time” provision, similar to what was done for the “reasonable period of time” provision in the Hosting Services interpretation.
CL 7	Professional Standards Committee of TXCPA	The PSC thinks that parameters should be in place and defined for the “short period of time” that is referenced in the exposure draft. Without guidance in the provision, the definition will be open to the interpretation of peer reviewers and juries. Generally, under 90 days is considered short-term except in the case of unusual circumstances such as subsequent events. Also, “completing remaining attest procedures” should include the issuance of the audit report.
CL 8	GT	The firm suggests PEEC consider replacing a “short period of time” with a “reasonable period of time” because they believe both terms allow members to apply judgment, however, they believe members may raise more questions on what PEEC meant by using the term “short period of time” (e.g., 10 days, 20 days, etc.). PEEC should consider providing members with guidance or considerations that will assist members with their evaluation or application of professional judgement.

		<p>The firm suggests that PEEC consider providing examples and scenarios to assist with the application of a “short period of time” in nonauthoritative guidance (e.g., scenarios and examples could include where prohibited services or relationships exist with a new affiliate of the attest client and safeguards that members could apply when evaluating the time period to complete the attest service if the firm will no longer be performing the attest service after the report is issued). Specific facts and circumstances may lead members to applying a different time period to complete the attest procedures, and at times that may be driven by the attest client versus the member. It may be difficult to provide specific parameters since each client situation may be different. However, through examples or member considerations, PEEC can provide members guidance on what would be acceptable or reasonable in the circumstances. In nonauthoritative guidance, PEEC could incorporate the reasonable third-party concept which may assist members in determining a reasonable timeframe in completing the attest procedures. Therefore, this further supports our views as to why we believe PEEC should consider using the term “reasonable period of time” versus “short period of time”.</p>
CL 9	CliftonLarsonAllen	The firm supports the proposal.
CL 10	BDO	The firm doesn’t believe a “short period of time” should be defined in the interpretation but that it would be helpful if a FAQ was issued that contained an example that would help members apply this provision. In addition, the firm believes it would be helpful if the example could also provide guidance on how to apply the provision in paragraph .10a which requires that the member has completed a significant amount of work on the engagement.
CL 11	NASBA	Comment letter expected on February 4, 2022.

Question d. - Do you agree that a three-month delayed effective date provides adequate time to implement the proposals? If not, why not? What period would provide adequate time?

CL 1	RSM	The firm believes the effective date should be six months (with earlier implementation allowed) because three months does allow enough time to adopt policies, procedures and implementation guidance, and communicate and train partners and professional employees, especially if they are published during the first or fourth quarters, thereby potentially impacting "busy season."
CL 2	KPMG	The firm concurs with the proposed effective date.
CL 3	NYSSCPA	The committee concurs with the proposed effective date and notes the heightened current merger and acquisition activity makes these issues particularly relevant.
CL 4	Deloitte	The firm concurs with the proposed effective date.
CL 5	TIC	The committee concurs with the proposed effective date.
CL 6	Crowe	The firm concurs with the proposed effective date.
CL 7	Professional Standards Committee of TXCPA	The committee concurs with the proposed effective date.
CL 8	GT	The firm concurs with the proposed effective date.
CL 9	CliftonLarsonAllen	The firm supports the proposal.
CL 10	BDO	The firm concurs with the proposed effective date.

CL 11	NASBA	Comment letter expected on February 4, 2022.
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Other comments		
CL 1	RSM	<p>Beneficial owner</p> <p>The firm recommends the proposal conform the definition of “beneficial owner” to 17 CFR 240.13d-3(a) since the intent is to conform the definition to that term as used in Rule 2-01(c)(1)(ii)(A) of Regulation S-X.</p> <p>Documentation</p> <p>The firm recommends that paragraph .12 require the member or member’s firm document items a-d.</p> <p>Editorial suggestions</p> <p>We suggest changing the word “Include” to “Cover” in the headings preceding paragraphs .06 and .10.</p> <p>We suggest revising paragraph .06c to read as follows:</p> <p style="padding-left: 40px;">c. The member or member’s firm does not provide attest services to the existing financial statement attest client for financial statements covering periods after the effective date of the acquisition.</p> <p>We suggest revising paragraph .07a to read as follows:</p> <p style="padding-left: 40px;">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 threats to independence, that might affect independence and [...]</p> <p style="padding-left: 40px;">b. Except as provided in paragraph .08, [...]</p>

<p>CL 2</p>	<p>KPMG</p>	<p>Consumer loans</p> <p>ET 1.260.020.05(d) of the proposed revisions extends the permissibility of credit cards and overdraft reserve accounts to include all consumer loans with an aggregate outstanding balance of \$10,000 or less, provided the loan is obtained under the lender’s normal lending procedures, terms, and requirements and the loan is kept current. The firm recommends PEEC replace the reference to “consumer loans” in the proposed revisions with “unsecured loans” to conform to the terminology in ET 1.260.020.02. We believe terminology used within the Code should be consistent to avoid confusion. Also, we don’t believe that there are any meaningful differences to the threats to independence if consumer loans are intended to be a subset of unsecured loans. The safeguards described should be equally effective for all unsecured loans. We suggest PEEC consider including “small business loans for an immediate family member” and “general lines of credit” to the examples of unsecured loans provided in paragraph ET 1.260.020.05(d). We believe that adding “general lines of credit” to the examples in the interpretation would effectively clarify that the rule encompasses all consumer financing that borrowers routinely obtain for personal consumption.</p> <p>Editorial suggestions</p> <p>The firm notes that proposed paragraph .05 of the “Client affiliates” interpretation refers to threats to independence that may be created by previous or current “interests or relationships” between the member or member’s firm and the new affiliate. Conversely, the Conceptual Framework for Members in Public Practice in ET 1.000.010 refers to threats that are created by “relationships or circumstances” that may arise to create threats to the member’s compliance with the rules. We ask that PEEC consider replacing the reference to threats as “interests or relationships” with “relationships or circumstances” to be consistent with the reference to threats elsewhere in the code, unless the distinction serves an intended purpose, in which case we request clarification as to the reason for the need for different terms.</p>
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		<p>The firm also notes that the proposal repeatedly requires members to evaluate the “level of the threats” created by the interest or relationship with the new affiliate. The AICPA Code does not currently refer to the “level of threats” created, but rather the “significance of threats” and whether relationships or circumstances give rise to threats that can be reduced to an acceptable level. We propose that PEEC replace “level of” with “significance of” so that the proposed revision is consistent with terminology used elsewhere in the code. Alternatively, if PEEC intended a difference between “level of threat” and “significance of threat,” then we suggest that clarification be provided as to the difference in expectation so that an effective evaluation can be performed.</p> <p>Finally, the firm notes that ET 1.224.010.09(c) and ET 1.224.010.12 refer to “transitional measures applied.” They believe “transitional measures” is intended to be synonymous with the term “safeguards” and recommend “transitional measures” be replaced with “safeguards.” If PEEC intended that the transitional measures are something other than safeguards, we recommend including examples or otherwise defining transitional measures.</p>
<p>CL 3</p>	<p>NYSSCPA</p>	<p>Documentation</p> <p>The committee recommends that paragraph .12 require the member or member’s firm document items a-d.</p> <p>Removal of 10% rule</p> <p>Third parties using financial statements often have no knowledge of how or whether an officer or director can affect decision making. A loan to or from a prominent officer or director on its face raises a question about independence and this provision does not address that concern. From an enforcement standpoint the provision as drafted would be effective. But from a third party’s perspective as a user of the financial statements, the presence of these loans can raise issues as to the independence of the auditor and so the exception to the rule should not be allowed.</p>

CL 4	Deloitte	None
CL 5	TIC	None
CL 6	Crowe	None
CL 7	Professional Standards Committee of TXCPA	<p>Removal of 10% rule</p> <p>The committee has a concern about the removal of the 10% rule under the text of proposed revised interpretation “Client Affiliates” on page 15 of the exposure draft (1.224.010.02) and replacing it with “significant influence.” Although they understand that the standards are moving toward the use of professional judgment rather than static numbers. However, not everyone will interpret the proposal the same, leading to inconsistency in application and possible issues during peer reviews. The deciding factor should be whether or not the owner may impact a financial decision.</p> <p>Unpaid fees</p> <p>The committee believes that unpaid audit fees are effectively loans to the audit client and should be included in this proposed revision.</p> <p>Financial interest in private company</p> <p>The committee would like for consideration to be given to whether or not the audit client is a public or private entity, as it may be more difficult to dispose of private interest in a private company.</p>
CL 8	GT	None
CL 9	CliftonLarsonAllen	None
CL 10	BDO	<p>Editorial suggestions</p> <p>The firm recommends the following revisions to clarify that the member will not continue to provide services to the financial statement attest client as well as the acquirer under this</p>

		<p>scenario:</p> <p>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 Include Periods After the Effective Date of the Acquisition</p> <p>.06c. The member or member's firm will not continue to provide financial statement attest services to the existing financial statement attest client or the acquirer for periods after the effective date of the acquisition.</p> <p>The firm recommends the following revisions to clarify that the financial statement attest services may be performed for the financial statement attest client as well as the acquirer in cases where the financial statement attest client is being acquired.</p> <p>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</p> <p>.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 (or its acquirer where the financial statement attest client is being acquired) after the effective date of the acquisition or other transaction, the following conditions should be met:</p> <p>The firm recommends the following revisions to conform to the drafting conventions used above in the heading to paragraph .06 and the guidance in paragraph .07.</p> <p>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</p>
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		<p>the Existing Financial Statement Attest Engagement but Will Not Continue Providing Such Financial Statement Attest Services After the Current Attest Report Is Issued but and the Report May Does Include Periods After the Effective Date of the Acquisition or Other Transaction</p> <p>.10 When <i>an acquisition or other transaction creates a new affiliate of a financial statement attest client during the period of professional engagement and the</i> a member or member's firm will does not expect to continue to providing financial statement attest services to the financial statement attest client <i>(or its acquirer where the financial statement attest client is being acquired)</i> 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 criteria are met:</p>
CL 11	NASBA	Comment letter expected on February 4, 2022.

Proposals

Text of proposed revised definition “beneficially owned”

Proposed 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.

Text of proposed revised interpretation “Client Affiliates”

Proposed additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~. The task force’s proposed revisions based upon comment letters received are highlighted in yellow.

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*.
- .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 “[Entities Included in State and Local Government Financial Statements](#)” interpretation

[1.224.020] of the “[Independence Rule](#)” [1.200.001]. [Prior reference: paragraph .20 of ET section 101]

Acquisition or Other 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 **Include 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.

~~.08A 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 ~~that, taking into account any 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 level 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 **level of 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. **Transitional measures 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 Include** 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 **criteria 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 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 **short 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 **level 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 give consideration to 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], 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 **transitional measures 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 .08A **member** should refer to paragraph .03 of "**Application of the AICPA Code**" [0.200.020] for guidance on circumstances involving foreign **network firms**.

Text of proposed revised interpretation “Loans”

Proposed 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.”

Text of proposed revised interpretation “Loans and Leases With Lending Institutions”

Proposed 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.

.03 .02 However, ~~t~~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, F~~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 are met-
- c. After becoming 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

- .04 .03** For purposes of applying the **loan** provision in paragraph .02 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 .04 of this interpretation. Accordingly, **independence** would be **impaired**.

Other Loans and Leases

- .05 .04** **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*)
- d. ~~Aggregate outstanding balances from~~ **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

- ~~.06~~ ~~.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]
- ~~.07~~ ~~.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].

Text of proposed revised interpretation “Immediate Family Members”

Proposed 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*.

Unpaid fees

Task force members

Bill McKeown (Chair), Tom Campbell, Jeff Lewis, Alan Long, Susan Siegmund, Doug Warren, Larry Wojcik

Observers

Hanna Baillie, Daniel Dodson, Brandon Mercer, Shana Wolfson

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Task force charge

To develop a principles-based framework for members to determine when unpaid fees impair independence.

Reason for agenda item

To seek adoption of the proposal from the exposure draft on the "[Proposed revised interpretation, Unpaid Fees](#)" dated September 20, 2021.

Task force activities

The task force discussed the nineteen comment letters received from the exposure draft and recommends certain revisions as outlined in the following sections.

Principles-based approach

14 of the 19 commenters support moving to a principles-based approach ([CL2](#), [CL3](#), [CL5](#), [CL7](#), [CL9](#), [CL10](#), [CL11](#), [CL12](#), [CL13](#), [CL14](#), [CL16](#), [CL17](#), [CL18](#), [CL19](#)). However, nearly all that support the revision had substantial suggested changes to paragraphs .02, .03, and .04.

- [CL2](#) notes that unpaid audit fees are effectively loans to the audit client and should be included in this provision instead of unpaid fees. They noted this in their [comment letter on the proposed revised interpretations and definition of loans, acquisitions, and other transactions](#)

5 of 19 commenters do not support the revised interpretation ([CL1](#), [CL4](#), [CL6](#), [CL8](#), [CL15](#)).

- Four commenters note that the current one-year bright line approach promotes consistency in practice ([CL1](#), [CL4](#), [CL8](#), [CL15](#)). The extant interpretation is objective and easy to apply for all practitioners and moving to a principles-based approach would introduce too much subjectivity in application. Furthermore, two commenters note that no safeguards would be sufficient to reduce threats to an acceptable level when unpaid fees exists at the current-year report issuance date ([CL4](#), [CL15](#)).

- Two commenters specifically note that the revised interpretation should more closely align with IESBA/SEC and require payment of overdue fees before issuing the current audit report ([CL4](#), [CL6](#)). These two commenters also question how allowing unpaid fees to remain does not constitute a loan to the client, especially as the code prohibits any loans to an attest client regardless of whether the loan is immaterial or clearly insignificant.
- One commenter notes that many practitioners rely on the extant interpretation in order to collect fees and that changing the interpretation as proposed would unfairly burden firms just starting in practice and those with relatively few clients as their respective client fees would likely be individually material compared with client fees at larger firms ([CL1](#)).
- One commenter notes that the proposed revision could put practitioners subject to the AICPA Code of Professional Conduct at odds with their state boards, laws, and regulations and therefore subject them to enforcement actions ([CL15](#)).

Task force recommendations

The task force recommends continuing the revised interpretation with a principles-based approach as it was well supported by commenters. As detailed in the following sections, the task force proposes certain clarifying changes to the proposed revised interpretation to address many of the comments received and to better enable the application of the principles-based approach.

The task force also recommends revising extant nonauthoritative guidance, which would include why unpaid fees are not considered a loan.

Questions for the committee

1. Does the committee agree to continue the revised interpretation using a principles-based approach?
2. Does the committee agree that extant nonauthoritative guidance should be revised to provide additional clarification of the revised interpretation?

Question a – PEEC does not believe unpaid fees create advocacy threats and, as such, proposes to eliminate this from the interpretation. Do you believe the advocacy threat is applicable to unpaid fees? If so, please explain.

10 commenters support deleting the advocacy threat ([CL2](#), [CL3](#), [CL4](#), [CL8](#), [CL9](#), [CL12](#), [CL14](#), [CL16](#), [CL18](#), [CL19](#)). Only two commenters think the advocacy threat should remain. One commenter cites unpaid fees as a form of financing for the attest client, which may be construed

as a form of advocacy ([CL17](#)). The other commenter notes that unpaid fees may be insignificant to the firm but not the engagement partner, causing him or her to become an advocate for the attest client ([CL15](#)).

Task force recommendation

The task force recommends the advocacy threat not be included in the revised interpretation.

Question for the committee

3. Does the committee agree to remove the advocacy threat from the revised interpretation?

Question b – Are the factors to consider when evaluating whether threats are at an acceptable level clear? Should any other factors be considered?

5 commenters agree the factors are clear and have no additional suggestions/comments ([CL3](#), [CL9](#), [CL10](#), [CL17](#), [CL19](#)).

3 commenters agree that the factors are clear but think additional commentary is necessary:

- [CL2](#) recommends additional clarification of the definition of “clearly insignificant”. They believe clearer definition of this term would limit the amount of professional judgement involved. Staff notes the term “clearly insignificant” is not introduced until paragraph .03.
- [CL14](#) notes the factors to consider include the significance of the unpaid fees to the covered member but not to the attest client. Other interpretations, such as leases, consider materiality to the covered member and the attest client. This commenter presumes PEEC contemplated and concluded the significance of the unpaid fees to the attest client does not present an undue influence threat even when the fees are significant to the attest client as long as the fees are clearly insignificant to the covered member. If this is not the case, they believe this should be considered.
- [CL18](#) suggests revising paragraph .02a as follows: “The significance of the unpaid fees ~~to~~ **for the professional services provided by the** covered member”.

5 commenters do not agree the factors are clear and offer suggestions:

- [CL4](#) does not support the proposed revision as a whole.
- [CL8](#), [CL12](#), and [CL15](#) question the use of the term “covered member” due to its broad definition. They believe it is unclear if the revised interpretation should be evaluated at

the firm level, engagement partner level, or at all levels included in the definition of “covered member”. [CL16](#) also questions the use of the term “covered member” when responding to Question c as does [CL2](#) when responding to Question d. [CL12](#) believes this evaluation should be at the firm level only.

- [CL8](#) also adds that factor .02c should be modified or removed as the attest client and firm have already agreed to a fee in the engagement letter. If this factor remains, they believe the advocacy threat should still be included as the member may put the client’s financial interests above their own. They also suggest that an additional factor be added which considers the firm’s prior experience with the client’s adherence to payment schedules.
- [CL15](#) suggests adding the reason for the unpaid fees as another factor. They believe that the impact of unpaid fees on the covered member could be dependent on the underlying factor(s) behind the unpaid fees. These underlying reasons may impact the member’s objectivity and appearance of the member’s ability to maintain independence.
- [CL16](#) indicates that paragraph 4, item d of the exposure draft explanatory memo notes a threat factor is “the potential effects the situation will have on the auditor’s objectivity and appearance of the auditor’s ability to maintain independence”. They suggest clarifying this factor as an overarching principle in the revised interpretation. They note that other factors could also be relevant and that they should be clarified in paragraph .02. They believe an additional factor should be added to determine if the unpaid fees are due from an attest client or an affiliate.

Task force recommendations

With respect to concerns expressed about using the term “covered member” in the interpretation, the task force notes that this is the term used in the extant interpretation as well as most other independence interpretations in the code. Furthermore, the task force believes unpaid fees should be assessed at all levels as defined in the term “covered member” and that the principles-based approach supports this assessment. The task force will consider incorporating an example of when unpaid fees may be significant to one covered member into the next update of the Plain English Guide to Independence.

The task force considered the comment made by CL16 that a factor should be added to determine if the unpaid fees are due from an attest client or an affiliate. The task force believes the revised interpretation is sufficient to allow members to use professional judgment in this situation and therefore a specific factor is not needed.

Based on CL8, the task force recommends expanding factor “c” into two items, which will distinguish between whether the attest client has a contractual obligation to pay the unpaid fees

or whether there are other factors affecting the client's ability to pay. The proposed modifications to 1.230.010 can be found in agenda item 4C.

Question for the committee

4. Does the committee agree with the task force's recommended edits to paragraph .02?

Question c – Do you agree with the use of the terms “clearly insignificant” and “significant” in paragraph .03 of the interpretation? Why or why not?

4 commenters agree with the terms “clearly insignificant” and “significant” and have no additional suggestions/comments ([CL3](#), [CL12](#), [CL14](#), [CL18](#)).

6 other commenters agree the factors are clear but think additional commentary is necessary ([CL2](#), [CL5](#), [CL7](#), [CL9](#), [CL10](#), [CL19](#)):

- Five commenters note that these terms are subjective and should be defined in the code or have related nonauthoritative guidance, including examples, on how to apply such terms ([CL2](#), [CL5](#), [CL7](#), [CL9](#), [CL10](#)). [CL10](#) requests examples based on large and small firms and their varying compensation structures.
- [CL2](#) believes the definition of “clearly insignificant” needs additional clarification so that the term would limit the amount of professional judgement involved. Staff notes this answer was provided in their response to question b.
- [CL5](#) questions why “immaterial” and “material” were not used instead since these terms are more frequently used in the code.
- [CL19](#) indicates that paragraph .03 is not clear on when members should consider the significance of unpaid fees. The proposed revised interpretation seems to suggest an ongoing evaluation of unpaid fees, which is more restrictive than the extant code. They suggest the following wording if PEEC intended to retain the current point-in-time (report issuance date) evaluation:
 - .03 Threats to the covered member's compliance with the “Independence Rule” [1.200.001] are at an acceptable level *if*, when the **current-year attest report is issued**, unpaid fees are both clearly insignificant to the covered member and relate to professional services provided less than one year prior to the issue date of the current-year attest report. Alternatively, threats would not be at an acceptable level *if*, when **the current-year attest report is issued**, unpaid fees are both significant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest

report. Other situations required judgment to assess the threats to the covered member's compliance with the "Independence Rule".

5 commenters do not agree the factors are clear and offer suggestions ([CL4](#), [CL8](#), [CL15](#), [CL16](#), [CL17](#)):

- [CL4](#) does not support the proposed revision as a whole.
- [CL8](#) believes these terms are subjective and can have different meanings to different users. They recommend the second sentence of paragraph .03 be modified as follows: "Alternatively, threats would not be at an acceptable level when unpaid fees are both **not clearly insignificant** ~~significant~~ to the covered member and relate to professional services provided more than one year prior to the issuance date of the current-year attest report."
- [CL15](#) believes the terms are too subjective and without more clarity or parameters, regulators will not be able to enforce the interpretation.
- [CL16](#) believes -
 - The last sentence seems to imply there are always threats to independence. For example, the wording would seem to indicate that a threat to independence is present when the unpaid fee is significant, even if the balance due is current, the client has a history of paying on time, and there is no indication the client will fail to pay timely. They suggest the following: "Other situations require judgment to assess **whether there are** ~~the~~ threats to the covered member's compliance with the "Independence Rule"."
 - "Significant" should be replaced with "material" as materiality is more broadly understood by the profession and is used in other code sections (cooperative arrangements, financial interests, leases, and unsecured loans).
- [CL17](#) indicates that PEEC's intent is not clear as to if the fee is "clearly insignificant", "significant", or if there is a third category as noted in the sentence "other situations require judgment...". They suggest the following:
 - .03 Threats to the covered member's compliance with the "Independence Rule" [1.200.001] are at an acceptable level when unpaid fees are both clearly insignificant to the covered member and relate to professional services provided less than one year prior to the issue date of the current-year attest report. Alternatively, threats would not be at an acceptable level when unpaid fees are both significant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest

report. ***For purposes of this paragraph, a threat is either “clearly insignificant” or “significant”.*** Other situations required judgment to assess the threats to the covered member’s compliance with the “Independence Rule”.

Task force recommendations

The task force considered if the terms “immaterial” and “material” should be used instead of “clearly insignificant” and “significant”. The task force believes the terms are appropriate in the revised interpretation and notes the terms “clearly insignificant” and “significant” are used in other sections of the code. Furthermore, the terms “immaterial” and “material” generally only focus on the magnitude of the dollar value whereas “clearly insignificant” and “significant” encompass qualitative as well as quantitative factors. The task force will update the existing unpaid fees nonauthoritative guidance to provide examples of how to apply these terms.

Based on CL19, the task force proposes adding additional wording to the first two sentences of paragraph .03 to clarify the intent is to retain the point-in-time evaluation of unpaid fees as the report issuance date.

Based on CL16, the task force proposes revising the wording in the last sentence of paragraph .03 to clarify that not all situations with unpaid fees create threats to independence.

The proposed modifications to 1.230.010 can be found at agenda item 4C.

Question for the committee

5. Does the committee agree with the recommended edits to paragraph .03?

Question d – Should any other safeguards be provided as examples in paragraph .04?

No commenters provided other suggestions for safeguards.

5 commenters have no further suggestions/comments ([CL10](#), [CL14](#), [CL16](#), [CL17](#), [CL19](#)).

9 commenters have suggestions/comments ([CL2](#), [CL3](#), [CL4](#), [CL8](#), [CL9](#), [CL11](#), [CL12](#), [CL15](#), [CL18](#)).

- [CL2](#) is concerned about the quality of the current-year audit when unpaid fees remain, especially when entities other than the audit client rely on the report.
- [CL4](#) does not support the proposed revision as it believes no safeguards could eliminate or reduce threats to an acceptable level in this situation.

- Five commenters do not agree that a post-issuance review is an appropriate safeguard as independence could be impaired when a report is issued ([CL3](#), [CL8](#), [CL9](#), [CL12](#), [CL15](#)). Safeguards should be preventative, not detective regarding threats to independence. Threats to independence should be eliminated or reduced to an acceptable level before the report is issued. In responding to Question e, [CL5](#) does not believe post-issuance review to be a sufficient safeguard and suggests it be removed as an option or language added clarifying that a post-issuance review alone is not a sufficient safeguard.
- Four commenters have specific suggestions/comments for safeguards .04b and .04c: ([CL3](#), [CL8](#), [CL15](#), [CL18](#)).
 - [CL3](#) and [CL15](#) note an immaterial payment could be made, which would technically comply with the recommended safeguard. CL3 suggests the following: “Obtain a **significant** partial payment of the unpaid fees balance **before the current-year attest report is issued.**”
 - [CL8](#) recommends clarification for safeguard .04b as to when the payment is to be made, such as before report issuance.
 - [CL8](#) notes safeguard .04c may not be effective as the client may refuse to comply with the payment schedule after receiving the report. They suggest the following: “**Obtain an agreement from the client** Agree to a payment schedule before the current-year attest report is issued.” They recommend guidance on how long payment terms may extend into the future.
 - [CL15](#) does not consider safeguard.04c meaningful as agreeing to a payment schedule does not guarantee future payment of the previous year’s unpaid fees.
 - [CL18](#) believes PEEC should also consider if paragraphs .04b and .04c should be combined as a single safeguard since that is common practice. Alternatively, they believe the language in paragraph .04b could be updated to the following: “Obtain partial payment of the unpaid fees balance **such that the remaining unpaid balance is insignificant to the member.**”
- Three commenters recommend the revised interpretation be updated to specifically clarify that one or more safeguards may be necessary ([CL8](#), [CL11](#), [CL12](#)). [CL12](#) suggests the following: “Examples of actions that might be safeguards include (**but are not limited to**) the following:”

- [CL15](#) believes no safeguards are adequate in this situation and the current one-year bright line is easier for state boards to regulate and enforce.
- [CL18](#) believes PEEC should consider whether the safeguards should be presented in a sequential order as to what has been experienced in practice or consider such guidance in a nonauthoritative FAQ.

Task force recommendations

The task force considered a comment made by CL15 that the extant interpretation's one-year bright line rule is easily enforced by the state boards. The task force notes that the code requires members comply with other regulators' more restrictive requirements and that failure to do so would be considered a violation of the code. Furthermore, the task force believes the proposed principles-based revised interpretation would cover situations where unpaid fees are less than one year old but threats to independence may exist.

The task force considered the use of the term "clearly insignificant" in safeguards .04b and .04e. The task force concluded that use of the term "clearly insignificant" would imply that the threat is eliminated when the requirement is for threats to be eliminated or reduced to an acceptable level. Use of the term "significant" in safeguard .04b conveys the threat would be reduced to an acceptable level but not eliminated. The task force then agreed to remove the phrase "until the unpaid fees are clearly insignificant to the covered member" from safeguard .04e as it is not needed and appears to be repetitive when considering safeguard .04b.

Based on CL8 and CL11, the task force recommends adding a sentence to paragraph .04 to clarify that multiple safeguards may be needed to eliminate or reduce threats to an acceptable level.

Based on CL3 and CL8, the task force recommends clarifying language to paragraph .04b as to the amount of the payment.

Based on CL3, CL15, and CL18, the task force recommends clarifying language to paragraph .04c that the payment schedule must be supported by a contractual agreement.

Based on CL3, CL5, CL8, CL9, CL12 and CL15, as well as comments noted in response to Question e, the task force recommends removing paragraph .04d.

The proposed modifications to 1.230.010 can be found at agenda item 4C.

The task force's proposed edits to paragraph .04f will be discussed with Question f.

Questions for the committee

6. Does the committee agree with the recommended edits to paragraph .04?
7. Does the committee agree with the recommended edits to paragraph .04b?
8. Does the committee agree with the recommended edits to paragraph .04c?
9. Does the committee agree with the recommended edits to paragraph .04e?

Question e – Are the safeguards in paragraphs .04a and .04d clearly delineated? Why or why not?

6 commenters agree the safeguards are clearly delineated; 3 of these commenters have suggestions/comments ([CL2](#), [CL10](#), [CL14](#), [CL16](#), [CL17](#), [CL19](#))

- [CL2](#) notes that these safeguards will increase the cost of an audit and add further delays to issuance.
- [CL10](#) believes the use of the term “appropriate reviewer” in paragraph .04a provides sufficient flexibility for a firm to implement this safeguard.
- [CL14](#) believes that members in public practice will understand that the action taken in paragraph .04d is a review in accordance with the firm’s system of quality control.

1 commenter does not agree the safeguards are clearly delineated but has no suggestions/comments ([CL3](#)).

8 commenters do not agree the safeguards are clearly delineated and provide suggestions/comments ([CL4](#), [CL5](#), [CL7](#), [CL8](#), [CL9](#), [CL12](#), [CL15](#), [CL18](#)).

- Two commenters do not agree with the revised interpretation as a whole as they believe no safeguards could eliminate or reduce threats to an acceptable level in this situation ([CL4](#), [CL15](#))
- [CL5](#) believes that the pre-issuance review noted in paragraph .04d can be read to be an example of the safeguard in paragraph .04a. They recommend expanding paragraph .04a to elaborate on the types of reviews (e.g., pre-issuance review) and reviewers that would constitute a sufficient safeguard or distinguishing between the examples of the review type safeguard intended by paragraph .04a and the pre-issuance review specified in paragraph .04d.

- [CL7](#) believes these safeguards should be removed as they do not assist in getting fees paid.
- [CL8](#) does not specifically answer the question but notes the firm is included in the definition of a covered member so use of a reviewer within the firm would not be an adequate safeguard. Use of an independent party would need to be engaged before report issuance and would increase costs, which would be an extra hardship on small firms.
- [CL9](#) is not sure why both paragraphs .04a and .04d are needed. They believe the safeguard in paragraph .04d with added guidance making it clear that the reviewer should be someone who has not provided attest or nonattest services to the attest client would also include the guidance in paragraph .04a.
- [CL12](#) believes -
 - The safeguard in paragraph .04a is not clear as to if the appropriate reviewer is someone within the firm or from another firm. Their view is that reviewers within the same firm are the most appropriate resources to review attest work prior to current-year report issuance but acknowledge that it is a consideration a member may make when evaluating the specific facts and circumstances. Additionally, the phrase in paragraph .04a “reviewer who has not provided attest services” is not clear and suggests the limitation should apply to the current-year engagements rather than all other attest services or bright-line “cooling off” periods.
 - Paragraph .04d is not clear as to if an attest engagement already includes an engagement quality control review (EQCR), then an additional review (pre-issuance) is also needed. The EQCR review should be sufficient.
- [CL18](#) believes these safeguards should be clarified and more clearly delineated as it appears the pre-issuance review of a current attest engagement in paragraph .04d is already being considered in paragraph .04a. The difference in the pre-issuance review in paragraphs .04a and .04d should be clarified in the interpretation or in nonauthoritative guidance. An example of when the safeguard in paragraph .04a should be used versus the one in paragraph .04d would be most helpful.

Task force recommendations

Based on CL7, the task force considered if only safeguards that pertained to fee collection should be used. The task force believes additional safeguards should remain so that the revised interpretation is applicable to all firm sizes and further notes the language added to paragraph .04 highlights that more than one safeguard may need to be applied to eliminate or reduce threats to an acceptable level.

Based on CL5, CL8, CL9, CL12 and CL18, the task force will consider incorporating examples in nonauthoritative guidance of how to apply this safeguard and will specifically address the CL12 comment regarding EQCR.

Based on CL5, CL8, CL9, CL10, CL12 and CL18, the task force recommends removing paragraph .04d and developing nonauthoritative guidance to further explain how the safeguard in paragraph .04a would be applied.

The proposed modifications to 1.230.010 can be found at agenda item 4C.

The task force's proposed edits to paragraph .04f will be discussed with Question f.

Questions for the committee

10. Does the committee agree with the recommended edits to paragraph .04a?
11. Does the committee agree with the recommended edits to paragraph .04d?

Question f – Is it clear in paragraph .04f that communication with those charged with governance is not in itself a sufficient safeguard?

4 commenters agree the revised interpretation is clear that communication with those charged with governance is not in itself a sufficient safeguard ([CL9](#), [CL10](#), [CL12](#), [CL14](#)).

2 commenters disagree but have no suggestions/comments ([CL6](#), [CL15](#)).

11 commenters disagree and have suggestions/comments ([CL2](#), [CL3](#), [CL4](#), [CL5](#), [CL7](#), [CL8](#), [CL11](#), [CL16](#), [CL17](#), [CL18](#), [CL19](#)):

- Nine commenters note that communication with those charged with governance is not a sufficient safeguard in itself and that should be explicitly stated either in paragraph .04f or in a separate paragraph ([CL2](#), [CL3](#), [CL4](#), [CL5](#), [CL11](#), [CL16](#), [CL17](#), [CL18](#), [CL19](#)). Commenters suggest the following:
 - [CL11](#) - Remove paragraph .04f and include it as its own paragraph following the listing: “**Communication with those charged with governance regarding the unpaid fees may also be considered a safeguard when such communication is supplemented by another safeguard(s), such as those noted in paragraph .04a through .04d.**”
 - [CL17](#) – Add language to paragraph .04f: “**Communication with those charged with governance regarding the unpaid fees but not applying other**

safeguards is not sufficient for the communication with those charged with governance to be considered a safeguard under paragraph .04”.

- [CL18](#) – Revise paragraph .04: “If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level **and communicate with those charged with governance regarding the member’s evaluation of the unpaid fees and the safeguards applied to eliminate or reduce threats to an acceptable level, as necessary based on facts and circumstances.** If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired. Examples of actions that might be safeguards include the following:
 - a. Have an appropriate reviewer who has not provided attest or nonattest services to the *attest client* review the attest work performed before the current-year attest report is issued.
 - b. Obtain partial payment of the unpaid fees balance.
 - c. Agree to a payment schedule before the current-year attest report is issued.
 - d. Select the current attest engagement for pre-issuance or post-issuance review.
 - e. Suspend further work on current attest engagements and not accept new engagements with this attest client until the unpaid fees are clearly insignificant to the covered member.
 - f. ~~Communicate with those charged with governance regarding the unpaid fees and the other safeguards applied.”~~
- [CL19](#) – Add language to paragraph .04f: “Communicate with those charged with governance regarding the unpaid fees and other safeguards applied. **Such communication does not by itself reduce threats to an acceptable level.”**
- [CL2](#) believes privacy issues prevent auditors from communicating with potential ultimate users of the audit report that previous audit fees are unpaid, which may affect their financial decisions. While this interpretation provides flexibility to auditors when considering continuing an audit engagement while previous audit fees are not paid in full, it creates other issues. For example, additional disclosures for readers of the audit report may be necessary.
- [CL3](#) notes that for many small entities, those charged with governance is the same group as entity managers/owners.
- [CL4](#) does not support the proposed revision as a whole.

- [CL5](#) believes communication with those charged with governance regarding unpaid fees should always be a requirement, especially when unpaid fees are significant and pose a significant threat to independence.
- [CL7](#) believes the safeguard should be removed as it does not assist in getting fees paid.
- [CL8](#) does not answer the specific question but notes communication with those charged with governance is not a sufficient safeguard.

Task force recommendation

Based on comments received, the task force recommends adding clarifying language that communication with those charged with governance is not by itself a sufficient safeguard.

The proposed modifications to 1.230.010 can be found at agenda item 4C.

Question for the committee

12. Does the committee agree with the placement and revised wording regarding communication with those charged with governance?

Question g – Do you agree that a six-month delayed effective date provides adequate time to implement the proposal? If not, why, and what period would provide adequate time?

12 commenters agree that a six-month delayed effective date provides adequate time to implement the revised interpretation ([CL2](#), [CL3](#), [CL4](#), [CL8](#), [CL9](#), [CL10](#), [CL12](#), [CL14](#), [CL16](#), [CL17](#), [CL18](#), [CL19](#)). [CL10](#) notes early adoption should be allowed.

One commenter disagrees and suggests a one-year delayed effective date is more appropriate given that most recurring attest services are performed annually ([CL15](#)).

Task force recommendation

The task force recommends a six-month delayed effective date with early adoption allowed.

Question for the committee

13. Does the committee agree with the task force's recommendation of a six-month delayed effective date with early implementation allowed?

Action needed

The committee is asked to adopt the proposed revised interpretation as amended with a six-month delayed effective date and early implementation allowed.

Communications plan

Task force staff will work with the division's communications manager to develop a communications plan.

Materials presented

- Agenda item 4B: Comment letter summary
- Agenda item 4C: Text of proposed revised "Unpaid Fees" interpretation

Comment letter summary
Proposed revised interpretation “Unpaid Fees”
 Exposure draft dated September 20, 2021

Commenters that support, support with comments, or do not support the revised principles-based approach for unpaid fees and provided general feedback:

Support: 14 (majority of commenters had significant suggestions or comments as detailed herein)

Do not support: 5

CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	<p>Does not support</p> <p>They question the need to change the existing guidance, as many practitioners rely on the extant interpretation to collect fees. They believe the principles-based approach introduces unnecessary complexity and puts additional pressure on practitioners to push back against unpaid fees. The revision would unfairly burden firms just starting in practice and those with relatively few clients as their respective client fees would likely be individually material compared with client fees at larger firms.</p>
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	<p>Supports</p> <p>The proposed interpretation gives the CPA more flexibility in determining collection practices and aligns with the SEC, which resolves a convergence issue. However, it seems to be counterintuitive to improving audit quality, considering that what was previously a clear and concise rule regarding unpaid fees is now up to the judgment of the auditor.</p>

		In their comment letter on the proposed revised interpretations and definition of loans, acquisitions, and other transactions , they note unpaid audit fees are effectively loans to the audit client and should be included in this provision instead of unpaid fees.
CL 3	AICPA PCPS Technical Issues Committee (TIC)	Supports
CL 4	BDO USA LLP	<p>Does not support</p> <p>They believe a definitive time period to be the most appropriate measure in assessing a firm’s independence concerning unpaid fees from an attest client.</p> <p>They do not believe that the safeguards provided in paragraph .04 would be sufficient in the instance where a member has past due fees from an attest client that have been outstanding for an extended period of time. The self-interest threat created when fees from an attest client remain unpaid for greater than one year are significant and could impair the auditor’s objectivity despite said safeguards. The current “bright-line test” that exists is clear and allows for clarity and consistency in the application of the standard.</p> <p>Noted that the underlying reason for requiring that unpaid fees be paid prior to the issuance of the current year’s attest report is because the unpaid fees take on the characteristics of a loan, and the code prohibits any loan to an attest client, regardless of whether the loan is immaterial or clearly insignificant. Permitting unpaid fees from an attest client for an extended period, even if clearly insignificant, would be inconsistent with the treatment of loans to an attest client.</p> <p>They recommend that the committee consider aligning with the SEC unpaid fees rule and believe that it would be appropriate to require that when the current audit commences, the client has either paid any unpaid fees from the prior years’ services or has committed to pay such fees before the issuance of the current year’s audit report. They would also support a provision that would permit the client to make</p>

		periodic payments to settle the prior years' fees if the member has reasonable assurance that the current year's audit fee will be paid prior to commencing the next year's audit.
CL 5	Ernst & Young LLP (EY)	Supports
CL 6	RSM US LLP	<p>Does not support</p> <p>The revised interpretation does not appear to converge with IESBA or SEC as both regulators expect that the firm will require payment of overdue fees before issuing an audit report.</p> <p>The Exposure Draft does not set forth any rationale for the conclusion that the bright-line one-year approach is not appropriate, including why unbilled or unpaid fees that have been outstanding for a significant period of time (e.g., more than one year prior to the issuance date of the current year attest report) would not be equivalent to a loan to the attest client that would impair independence under Section 1.260.010 of the AICPA's Code of Professional Conduct.</p> <p>They note that unpaid fees generally arise from disputes and are concerned that in the case of the client's inability or unwillingness to pay the fees, a reasonable and informed third party would question whether the covered member would be able to exercise objectivity in the performance of the attest service and issuance of the attest report.</p> <p>They are concerned applying judgment to assess the threats to the covered member's compliance with the "Independence Rule" (that the last sentence of paragraph .03) and, by implication, the effectiveness of safeguards that could be applied to eliminate the threats or reduce them to an acceptable level, are incapable of consistent application and, therefore, the Proposed Revised Interpretation does not meet the objective of developing a principles-based framework.</p> <p>They are concerned with how the covered member would assess threats arising from the attest client's inability or unwillingness to pay the fees owed and how the</p>

		example safeguards could be applied to eliminate those threats or reduce them to an acceptable level. They do not believe the significance of the threats to the covered member is operational as the “covered member” could be the firm, the audit engagement partner, the office managing partner or any other person whose performance rating or compensation might be affected by the inability to collect the unpaid fees. They recommend consistency with the SEC’s guidance and base the assessment on the relationship of the unpaid fees to the current period audit fee.
CL 7	Indiana CPA Society Ethics Committee	Supports
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	Does not support The current one-year bright line approach is objective, easy to apply, avoids abuse and ensures consistency. The proposed changes would make application subjective and would lead to different conclusions on independence even in the same fact pattern.
CL 9	Ohio Auditor of State	Supports
CL 10	Carr, Riggs, & Ingram, LLC	Supports
CL 11	KPMG LLP	Supports
CL 12	Four Fifteen Group	Supports
CL 13	CliftonLarsonAllen LLP	Supports

CL 14	Crowe LLP	Supports
CL 15	National Association of State Boards of Accountancy (NASBA)	<p>Does not support</p> <p>The current one-year bright line approach is simple, straightforward, and easily understood. They are concerned the proposed revision could put practitioners subject to the code at odds with their state laws and regulations relative to unpaid fees and subject them to enforcement actions. This may also put state boards at odds with their laws and regulations relative to unpaid fees if they have not fully adopted the code.</p> <p>They do not believe that PEEC should replace this (existing) interpretation with a conceptual framework approach that introduces subjective terms and factors that will likely be more challenging for members to interpret and apply. They believe that an advocacy threat could exist when unpaid fees exist and do not believe there are any safeguards to mitigate the threats created by unpaid fees and the adoption by PEEC of its proposal is not in the public interest.</p>
CL 16	PricewaterhouseCoopers LLP (PwC)	Supports
CL 17	CohnReznick LLP	Supports
CL 18	Grant Thornton LLP	<p>Supports</p> <p>PEEC may consider developing nonauthoritative guidance in the format of a frequently asked questions (FAQs) document that highlights various scenarios and examples, which include discussion of factors to consider and safeguards that may be appropriate when certain facts and circumstances exist and based on issues members may be encountering in current practice.</p>
CL 19	Deloitte LLP	Supports

Question a: PEEC does not believe unpaid fees create advocacy threats and, as such, proposes to eliminate this from the interpretation. Do you believe the advocacy threat is applicable to unpaid fees? If so, please explain.

Yes: 2 No: 11 No response: 6

CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	No
CL 3	AICPA PCPS Technical Issues Committee (TIC)	No
CL 4	BDO USA LLP	No
CL 5	Ernst & Young LLP (EY)	No response
CL 6	RSM US LLP	No response
CL 7	Indiana CPA Society Ethics Committee	No response
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	No

CL 9	Ohio Auditor of State	No
CL 10	Carr, Riggs, & Ingram, LLC	No – They believe unpaid fees could potentially lead a member to promote a client’s interest or position to enhance the probability of collection but the unpaid fees threat does not create an advocacy threat as defined in the code.
CL 11	KPMG LLP	No response
CL 12	Four Fifteen Group	No
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	No
CL 15	National Association of State Boards of Accountancy (NASBA)	Yes – The proposed interpretation applies to covered members, which includes the engagement partner and firm. Unpaid fees may be insignificant to the firm but could be significant to the engagement partner, causing him or her to become an advocate for the attest client (i.e., promoting the client’s interests as a means of retaining the client relationship and the fees).
CL 16	PricewaterhouseCoopers LLP (PwC)	No
CL 17	CohnReznick LLP	Yes – When certain fees remain unpaid, particularly large fees, this may serve as a form of financing for the attest client which may be construed as a form of advocacy.
CL 18	Grant Thornton LLP	No
CL 19	Deloitte LLP	No

Question b: Are the factors to consider when evaluating whether threats are at an acceptable level clear? Should any other factors be considered?

Yes: 8 No: 5 No response: 6

CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	Yes – The definition of “clearly significant” needs additional clarification. This level of threat is up to the professional judgment of the auditor unless there is a more concise definition of what should be considered significant.
CL 3	AICPA PCPS Technical Issues Committee (TIC)	Yes
CL 4	BDO USA LLP	No – The factors are clear; however, overall they do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees.
CL 5	Ernst & Young LLP (EY)	No response
CL 6	RSM US LLP	No response
CL 7	Indiana CPA Society Ethics Committee	No response
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics	No – They suggest that guidance should be provided for the factor described in paragraph .02a as to how a covered member is to assess the significance of the unpaid fees (in relation to the firm’s practice as a whole, to the client relationship, to

	Committee	<p>the covered member's portion of the firm's practice, or some other criteria).</p> <p>The factor in .02c should be modified or removed. The covered member has negotiated a fair fee, with which the client has agreed. The member may write-off or discount the fee if the client is experiencing financial hardship, but if fees remain unpaid, these unpaid fees will be a threat to independence. If this factor is included, the advocacy threat should remain as it may allow the accountant to put the client's financial interests above their own or their firm's interest.</p> <p>They suggest an additional factor be added that addresses the firm's prior experience with the client's adherence to payment schedules.</p>
CL 9	Ohio Auditor of State	Yes
CL 10	Carr, Riggs, & Ingram, LLC	Yes
CL 11	KPMG LLP	No response
CL 12	Four Fifteen Group	No – The factors to consider are clear except for item 2a. The definition of covered member includes individuals and it is not clear if the intent is to have this proposed revised interpretation and the consideration of the significance of unpaid fees apply to individuals as well as firms which meet the definition of a covered member. They believe that the intent is for the interpretation to apply at the firm level rather than individuals serving the attest engagement and encourages clarifying the intent.
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	Yes – The factors are clear but note the factors to consider include the significance of the unpaid fees to the covered member but not to the attest client. Other interpretations, such as leases, consider materiality to the covered member and the attest client. They presumed PEEC contemplated and concluded the significance of the unpaid fees to the attest client does not present an undue influence threat even

		<p>when the fees are significant to the attest client as long as the fees are clearly insignificant to the covered member. To the extent the presumption is inaccurate and the PEEC did not consider this factor, they believe consideration should be made.</p>
CL 15	National Association of State Boards of Accountancy (NASBA)	<p>No – The first factor included in evaluating whether threats are at an acceptable level cites the significance of the unpaid fees to the covered member. They believe that the significance of the unpaid fees to the covered member is unclear because of the broad nature of the definition of covered member. Insignificant fees to the firm may be significant to the engagement partner.</p> <p>Another factor that should be considered is the reason for unpaid fees. They believe that the impact of unpaid fees on the covered member could be dependent on the underlying factor(s) behind the unpaid fees. For example, unpaid fees could result from professional services rendered, responding to client inquiries, client contingencies and/or other factors. These underlying reasons may impact the member’s objectivity and appearance of the member’s ability to maintain independence.</p>
CL 16	PricewaterhouseCoopers LLP (PwC)	<p>No - Paragraph 4, item d of the exposure draft explanatory memo notes a threat factor is “the potential effects the situation will have on the auditor’s objectivity and appearance of the auditor’s ability to maintain independence”. They suggest this item is an overarching principle underpinning any independence evaluation rather than a specific factor for consideration when determining whether threats created by unpaid fees are at an acceptable level. They agree with the omission of that factor from the revised interpretation paragraph .02 but suggest PEEC consider clarifying this factor is an overarching principle in the revised interpretation.</p> <p>They suggest PEEC clarify in paragraph .02 that there may be other factors beyond those listed that are also relevant to the evaluation of whether threats are at an acceptable level in the specific facts and circumstances.</p> <p>An additional factor should be added to paragraph .02 that considers the specific</p>

		entity in the attest client's organizational structure from which the unpaid fees are due. They believe understanding if the fees are due from the financial statement attest client or from an affiliate would be an important consideration to the threats evaluation and the member's conclusion regarding its ability to issue the attest report.
CL 17	CohnReznick LLP	Yes
CL 18	Grant Thornton LLP	Yes – The factors are clear but suggest revising .02a as follows: “The significance of the unpaid fees to for the professional services provided by the covered member”.
CL 19	Deloitte LLP	Yes

Question c: Do you agree with the use of the terms “clearly insignificant” and “significant” in paragraph .03 of the interpretation? Why or why not?		
Yes: 10 No: 5 No response: 4		
CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	Yes – The use of “clearly insignificant” and “significant” should be determined on a firm basis and a case-by-case basis. A more concise definition of “clearly significant” would be beneficial to the interpretation.
CL 3	AICPA PCPS Technical Issues Committee (TIC)	Yes

CL 4	BDO USA LLP	No – They understand the intended use of the terms “clearly insignificant” and “significant”; however, overall they do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees..
CL 5	Ernst & Young LLP (EY)	Yes – They support the use of the terms “clearly insignificant” and “significant” but note members are more familiar with the terms “material” and “immaterial” as those terms are used more frequently in the code. They believe that without clear definition or a framework to determine whether an unpaid fee is clearly insignificant, application of the proposed revised interpretation may be inconsistent among members. If the terms “clearly insignificant” and “significant” are used, then non-authoritative guidance should also be issued so there is consistency in the application.
CL 6	RSM US LLP	No response
CL 7	Indiana CPA Society Ethics Committee	Yes – They are concerned with how members will interpret “clearly insignificant” and suggest examples or additional commentary be added to give some clarity.
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	No – Defining unpaid fees as “clearly insignificant” and “significant” is subjective and can have different meanings to different users. If the proposal moves forward with these terms, they suggest the second sentence of paragraph .03 be modified as follows: “Alternatively, threats would not be at an acceptable level when unpaid fees are both not clearly insignificant significant to the covered member and relate to professional services provided more than one year prior to the issuance date of the current-year attest report.”
CL 9	Ohio Auditor of State	Yes – They believe that determining “significant” is somewhat subjective and using the term “clearly insignificant”, without additional guidance, leaves it open to various interpretations. Providing examples and/or guidance would provide a more

		objective evaluation of what can be considered to be clearly insignificant.
CL 10	Carr, Riggs, & Ingram, LLC	Yes – They believe that examples of circumstances that are considered “clearly insignificant” and “significant” would be helpful and lead to consistency of application. Examples based on large and small firms and their varying compensation structures would also be helpful.
CL 11	KPMG LLP	No response
CL 12	Four Fifteen Group	Yes
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	Yes – The term “clearly insignificant” is used in other sections of the code, such as the gifts and entertainment interpretation and “significant” is used extensively throughout the code, so they believe these terms are known to members.
CL 15	National Association of State Boards of Accountancy (NASBA)	No – The terms are too subjective and without more clarity or parameters on what would be deemed significant or insignificant, regulators will not be able to enforce the interpretation.
CL 16	PricewaterhouseCoopers LLP (PwC)	No – Clarify in paragraph .03 that the last sentence regarding “other situations” require judgment to assess whether independence threats exist. The current proposed language implies that whenever “other situations” arise, there is always an assumed threat to independence. For example, the wording would seem to indicate that a threat to independence is present when the unpaid fee is significant, even if the balance due is current, the client has a history of paying on time, and there is no indication the client will fail to pay timely. The phrase “assess the threats” presumes there are always threats to independence. Suggests amending the interpretation as follows: “Other situations require judgment to assess <u>whether there are the threats to the covered member’s compliance with the “Independence Rule”</u> ”.

		<p>They note this suggested wording change would be consistent with the conceptual framework per ET 1.000.010.07 of the code. The code requires a member to determine whether relationships or circumstances create one or more threats. Only after the threat is identified is the member required to assess its significance.</p> <p>They suggest replacing the “significance” threshold with materiality instead. The proposed revised interpretation does not define “significant” or otherwise address the circumstances under which unpaid fees may be considered significant to the covered member. Materiality is more broadly understood by the profession and is a well-established concept in professional standards, including various interpretations in the code, such as cooperative arrangements, financial interests, leases, and unsecured loans.</p> <p>They believe all references to “covered member” should be changed to “member” as when there are fees due from an attest client for professional services provided more than one year prior to the issue date of the current-year attest report, the threats are to the independence of the member or the member’s firm as, generally, it is the member who was the party to the relationship with the attest client to provide the professional services and is owed the fees for performing those services.</p>
<p>CL 17</p>	<p>CohnReznick LLP</p>	<p>No – It is unclear if PEEC was intending this to be binary, that is, that the fee is “clearly insignificant” or “significant” or if there is a figurative middle ground that is greater than “clearly insignificant” but less than “significant”. The figurative middle ground is implied by the last sentence in the paragraph beginning “other situations require judgment...”.</p> <p>In order to remove unnecessary ambiguity and limit the potential for abuse, they suggest modifying the last sentence of paragraph .03 language:</p> <p><i>For purposes of this paragraph, a threat is either “clearly insignificant” or</i></p>

		“significant”. Other situations required judgment to assess the threats to the covered member’s compliance with the “Independence Rule”.
CL 18	Grant Thornton LLP	Yes - Terms are consistent with terms used in other areas of the code and in standards and guidance from other regulators, such as IESAB.
CL 19	Deloitte LLP	<p>Yes – They agree with the terms used but note that paragraph .03 is not clear on when members should consider the significance of unpaid fees. The proposed revised interpretation may be viewed as requiring ongoing evaluation of the significance of unpaid fees rather than a point-in-time (report issuance date) evaluation, which is more restrictive than the extant code. If PEEC intended to retain the current point-in-time (report issuance date) evaluation, they suggest the following wording:</p> <p>.03 Threats to the covered member’s compliance with the “Independence Rule” [1.200.001] are at an acceptable level <i>if</i>, when the current-year attest report is issued, unpaid fees are both clearly insignificant to the covered member and relate to professional services provided less than one year prior to the issue date of the current-year attest report. Alternatively, threats would not be at an acceptable level <i>if</i>, when the current-year attest report is issued, unpaid fees are both significant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest report. Other situations required judgment to assess the threats to the covered member’s compliance with the “Independence Rule”.</p>

Question d: Should any other safeguards be provided as examples in paragraph .04?

Yes: 0 No: 14 No response: 5		
CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	No – They are concerned about the quality of the current year audit for a client that has not paid last year’s fees, specifically increasing the risk of an underperformed audit. There is especially a concern when entities other than the audit client rely on the report. They also have a concern regarding paragraph .04a and the definition of covered member but did not elaborate on this point.
CL 3	AICPA PCPS Technical Issues Committee (TIC)	<p>No – They have concerns with some of the examples in paragraph .04. The inclusion of safeguard .04b without additional guidance would not result in a sufficient safeguard and as currently written a practitioner could argue that receiving a payment of any amount, including an amount which is clearly insignificant to the overall balance of unpaid fees, would result in a sufficient safeguard. They suggest modifying as follows:</p> <p style="padding-left: 40px;">“Obtain a significant partial payment of the unpaid fees balance before the current-year attest report is issued.”</p> <p>The example in paragraph .04d is not useful and does not clearly differentiate from the suggested safeguard provided by example .04a regarding performance of a pre-issuance review.</p> <p>Regarding the performance of a post-issuance review, they do not believe this should be included as a safeguard since the report would already have been issued.</p>
CL 4	BDO USA LLP	No – They are not aware of any other safeguards to be included in paragraph .04.; however, overall the commenter does not support the proposed principles-based

		evaluation of threats to independence regarding unpaid fees.
CL 5	Ernst & Young LLP (EY)	No response
CL 6	RSM US LLP	No response
CL 7	Indiana CPA Society Ethics Committee	No response
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	<p>No – They recommend making it clear that in any given situation one or more of the safeguards might be necessary.</p> <p>The proposed safeguard .04c may not be an effective safeguard as the client may refuse to comply with the payment schedule after receiving the report. If included in final interpretation, they recommend changing the wording to state:</p> <p>“Obtain an agreement from the client Agree to a payment schedule before the current-year attest report is issued.”</p> <p>They recommend guidance on how long payment terms may extend into the future and clarification for safeguard .04b as to when the payment is to be made, such as before report issuance.</p> <p>They do not agree that post-issuance review is a safeguard as a report could be issued while independence is impaired.</p>
CL 9	Ohio Auditor of State	No – They also noted that the suggested safeguards identified in .04d suggest either a pre-issuance or post-issuance review and they are unsure how a post-issuance review would resolve a potential threat to independence. They believe the threat must either be eliminated or reduced to an acceptable level before the report can be issued.

CL 10	Carr, Riggs, & Ingram, LLC	No
CL 11	KPMG LLP	No – The wording of paragraph .04 as proposed may not clearly communicate that multiple safeguards may be necessary to eliminate threats or reduce them to an acceptable level. Accordingly, they recommend adding a statement to paragraph .04 that covered members may need to apply more than one safeguard to eliminate or reduce threats to an acceptable level.
CL 12	Four Fifteen Group	<p>No – They note that there may be specific situations with specific clients where another action is possible and encourages clarifying the last sentence of paragraph .04 so that it is clear these are not the only safeguards that can be applied. They suggest the following: “Examples of actions that might be safeguards include (but are not limited to) the following:”</p> <p>A post-issuance review would not be a safeguard in this situation and is mainly used for internal inspections and peer reviews.</p>
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	No
CL 15	National Association of State Boards of Accountancy (NASBA)	<p>No – No safeguards are adequate to remove the current one-year bright-line approach to addressing unpaid fees. This is a clear deadline that members can use in dealing with the attest client regarding past, current, or future services (i.e., members have a better position to be able to discuss the matter with the client and resolve it). The current bright-line, one-year approach is easier for state boards to regulate and enforce.</p> <p>They do not consider paragraph .04b an appropriate safeguard. An immaterial payment on a substantial unpaid fee could be interpreted as having met the</p>

		<p>safeguard.</p> <p>They do not consider paragraph .04c a meaningful safeguard. Agreeing to a payment schedule does not guarantee future payment of the previous year’s unpaid fees.</p> <p>They do not believe selecting the current attest engagement for post-issuance review will resolve independence or objectivity issues that could impair the engagement team members or the engagement partner.</p> <p>They understand PEEC may ultimately decide to move away from the current bright-line approach and, in turn, the one-year bright-line on outstanding fees. If that occurs, they suggest that the one-year limited be considered as a possible threshold safeguard. In other words, if the unpaid fees have been outstanding for more than a year, then that fact would trigger additional safeguards that should be employed.</p>
CL 16	PricewaterhouseCoopers LLP (PwC)	No
CL 17	CohnReznick LLP	No
CL 18	Grant Thornton LLP	<p>No – PEEC should consider whether the safeguards should be presented in a sequential order as to what has been experienced in practice or consider such guidance in a nonauthoritative FAQ.</p> <p>PEEC should also consider if paragraphs .04b and .04c should be combined and presented in two elements of a single safeguard as it seems these safeguards may be commonly applied together in practice. Alternatively, PEEC should consider updating paragraph .04b as follows:</p> <p>“Obtain partial payment of the unpaid fees balance <i>such that the remaining unpaid balance is insignificant to the member.</i>”</p>

CL 19	Deloitte LLP	No
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Question e: Are the safeguards in paragraphs .04a and .04d clearly delineated? Why or why not?		
Yes: 6 No: 9 No response: 4		
CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	Yes – They note that both safeguards will increase the cost of an audit and add further delays to the issuance of the audit report.
CL 3	AICPA PCPS Technical Issues Committee (TIC)	No
CL 4	BDO USA LLP	<p>No – They believe the safeguards in .04a and .04d are clearly delineated; however, overall they do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees.</p> <p>They do not believe that the safeguards provided in paragraph .04 would be sufficient to mitigate threats in the instance when a member has past due fees from an attest client for an extended period of time. For example, they do not believe that an “appropriate reviewer” who was not involved in providing services to the client (.04a) could necessarily be objective when reviewing the attest work since the fees are owed to the firm itself.</p>
CL 5	Ernst & Young LLP (EY)	No – The pre-issuance review noted in paragraph .04d can be read to be an

		<p>example of the safeguard in paragraph .04a. They recommend expanding paragraph .04a to elaborate on the types of reviews (e.g., pre-issuance review) and reviewers that would constitute a sufficient safeguard or distinguishing between the examples of the review type safeguard intended by paragraphs .04a and the pre-issuance review specified in paragraph .04d.</p> <p>They believe that safeguards should be fully implemented prior to issuance of the current year attest report and do not believe a future action such as a post-issuance review would be a sufficient safeguard. They recommend either removing post-issuance review from paragraph .04d or clarifying that additional safeguards would be needed to reduce a significant threat to an acceptable level.</p>
CL 6	RSM US LLP	No response
CL 7	Indiana CPA Society Ethics Committee	No – They suggest that items .04a, .04d, and .04f should not be included in the final interpretation. The issue is unpaid fees that are clearly significant. These three noted items taken either individually or in total, do not appear to relate to getting fees paid. Adding these items seems to be a way to get around the core issue – unpaid significant fees.
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	No – They note that the firm is included in the definition of a covered member so use of a reviewer within the firm would not be an adequate safeguard. Use of an independent party would need to be engaged before report issuance and would increase costs, which would be an extra hardship on small firms.
CL 9	Ohio Auditor of State	No – They are not sure why both paragraphs .04a and .04d are needed and believe the safeguard example in paragraph .04d with added guidance making it clear that the reviewer should be someone who has not provided attest or nonattest services to the attest client would also include the guidance in paragraph .04a.
CL 10	Carr, Riggs, & Ingram, LLC	Yes – Use of the term “appropriate reviewer” in paragraph .04a provides sufficient flexibility for a firm to implement this safeguard.

CL 11	KPMG LLP	No response
CL 12	Four Fifteen Group	<p>No – It is not clear whether the “appropriate reviewer” is meant to apply to reviewers within the same firm or if it is meant to be other firms. Their view is that reviewers within the same firm are the most appropriate resources to review attest work prior to current year report issuance but acknowledge that it is a consideration a member may make when evaluating the specific facts and circumstances.</p> <p>The phrase in paragraph .04a “reviewer who has not provided attest services” is not clear. They recognize and support the concept of independence and in this limited instance “a second set of eyes”, however, they believe the limitation should apply to the current year engagement rather than all other attest services or bright-line “cooling off” periods.</p> <p>Paragraph .04d is ambiguous regarding pre-issuance reviews. When an attest engagement already includes an engagement quality control review (EQCR), it is not clear whether the intent is for an additional review (pre-issuance), and if so, it is not clear what the desired scope is. If it is intended that a pre-issuance review be in addition to an EQCR, then they believe there is limited, if any benefit, relative to the cost.</p> <p>Post-issuance review would not achieve the objective of serving as a safeguard for this specific threat. Such reviews are most appropriate for internal inspections and peer reviews.</p>
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	Yes – The example safeguards appropriately align to the threats created by unpaid fees. They believe members in public practice will understand the action taken in paragraph .04d is a review in accordance with the monitoring element of the firm’s system of quality control.

CL 15	National Association of State Boards of Accountancy (NASBA)	No – Overall they do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees.
CL 16	PricewaterhouseCoopers LLP (PwC)	Yes
CL 17	CohnReznick LLP	Yes
CL 18	Grant Thornton LLP	No – Safeguards .04a and .04d should be clarified and more clearly delineated as it appears the pre-issuance review of a current attest engagement in .04d is already being considered in .04a. It may be helpful if these safeguards are clarified for members as to how they are different, separate, and distinct from one another within the interpretation or through illustrative example scenarios in nonauthoritative guidance that would discuss with .04a should be used versus .04d.
CL 19	Deloitte LLP	Yes

Question f: Is it clear in paragraph .04f that communication with those charged with governance is not in itself a sufficient safeguard?		
Yes: 4 No: 13 No response: 2		
CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional	No – Paragraph .04f should be deleted or included in the interpretation as a separate requirement and does not add value as written. Additionally, privacy

	Standards Committee	issues prevent auditors from communicating with potential ultimate users of the audit report that previous audit fees are unpaid, which may affect their financial decisions. While this interpretation provides flexibility to auditors when considering continuing an audit engagement while previous audit fees are not paid in full, it creates other issues. For example, additional disclosures for readers of the audit report may be necessary.
CL 3	AICPA PCPS Technical Issues Committee (TIC)	No – Wording should be added to clearly indicate that communication with TCWG alone is not a sufficient safeguard. They suggest moving this safeguard to a separate paragraph to further denote that it should not be viewed as equivalent to the other safeguards in paragraphs .04a- 04e. They note that for many small entities, TCWG is the same group as managers/owners.
CL 4	BDO USA LLP	No – The proposed safeguard of communication with those charged with governance is not in itself a sufficient safeguard. If PEEC moves forward with the proposed interpretation, they suggest that paragraph .04f specifically state this.
CL 5	Ernst & Young LLP (EY)	No – They believe communication with TCWG should be a required communication rather than considered a safeguard as those charged with governance should be aware of the delay in payment of fees, particularly in situations where the unpaid fees pose a significant threat to independence.
CL 6	RSM US LLP	No – They suggest PEEC require communication with TCWG regarding the unpaid fees and the application of one or more additional effective safeguards if PEEC concludes that safeguards could reduce the threats to the covered member’s compliance with the “Independence Rule” to an acceptable level.
CL 7	Indiana CPA Society Ethics Committee	No – Items .04a to .04f appear to be standalone to a cold reader. They suggest that that the reducing of threats is greater than just .04f. Thus, the lead into the listing

		should be made clear that each item is not standalone.
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	No – They note that this would be a good item to communicate with TCWG but do not believe that this is a sufficient safeguard to reduce the threat to independence to an acceptable level.
CL 9	Ohio Auditor of State	Yes
CL 10	Carr, Riggs, & Ingram, LLC	Yes
CL 11	KPMG LLP	No – They recommend clarifying the proposed wording of paragraph .04f to more clearly convey that the safeguard of communicating with TCWG is not sufficient on its own and must be applied in conjunction with other safeguards, which can be accomplished by removing paragraph .04f and including it as its own paragraph after the safeguards listed in .04a through .04d with the following language: <i>“Communication with those charged with governance regarding the unpaid fees may also be considered a safeguard when such communication is supplemented by another safeguard(s), such as those noted in paragraph .04a through .04d.”</i>
CL 12	Four Fifteen Group	Yes
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	Yes – The code indicates that safeguards solely implemented by the attest client are not sufficient to reduce a significant threat to an acceptable level (ET 1.210.010.20).
CL 15	National Association of State Boards of	No

	Accountancy (NASBA)	
CL 16	PricewaterhouseCoopers LLP (PwC)	No – The PEEC’s expectation that the member would also apply other safeguards is not clear from the reference to “...and other safeguards applied” without the benefit of the additional clarity provided by this question in the exposure draft. They suggest this be explicitly stated in paragraph .04f.
CL 17	CohnReznick LLP	No – Although paragraph .04f includes the phrase “other safeguards applied”, it is not clear that this is not a standalone safeguard. They suggest language to be added: “Communication with those charged with governance regarding the unpaid fees but not applying other safeguards is not sufficient for the communication with those charged with governance to be considered a safeguard under paragraph .04”.
CL 18	Grant Thornton LLP	No – They do not consider communication with TCWG to be a safeguard and notes it is not presented as a safeguard in other areas of the code or in other regulatory standards. They suggest PEEC consider whether it is necessary for communication with TCWG to be required under the interpretation or a suggested action, as necessary based on facts and circumstances. In either case, as a requirement or suggested action, as necessary based on facts and circumstances under the interpretation, they suggest modifying paragraph .04 as follows or creating a “Discussion with Those Charged with Governance” section, consistent with how such actions are presented in other areas of the code, to be included after paragraph .04: . 04 If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level and communicate with those charged with governance regarding the member’s evaluation of the unpaid fees and the safeguards applied to eliminate or reduce threats to an acceptable

		<p>level, as necessary based on facts and circumstances. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired. Examples of actions that might be safeguards include the following:</p> <ol style="list-style-type: none"> a. Have an appropriate reviewer who has not provided attest or nonattest services to the <i>attest client</i> review the attest work performed before the current-year attest report is issued. b. Obtain partial payment of the unpaid fees balance. c. Agree to a payment schedule before the current-year attest report is issued. d. Select the current attest engagement for pre-issuance or post-issuance review. e. Suspend further work on current attest engagements and not accept new engagements with this attest client until the unpaid fees are clearly insignificant to the covered member. f. Communicate with those charged with governance regarding the unpaid fees and the other safeguards applied.
CL 19	Deloitte LLP	<p>No – Paragraph .04f is not explicit that communication with TCWG is not by itself a sufficient safeguard. As written, the provision only suggests communication of other safeguards applied, rather than expressing the adequacy or sufficiency of communicating with TCWG as a safeguard. They suggest the following language:</p> <p>“Communicate with those charged with governance regarding the unpaid fees and other safeguards applied. <i>Such communication does not by itself reduce threats to an acceptable level.</i>”</p>

Question g: Do you agree that a six-month delayed effective date provides adequate time to implement the proposal? If not, why, and what period would provide adequate time?

Yes: 12 No: 1 No response: 6		
CL 1	Pennsylvania Institute of CPAs (PICPA) Professional Ethics Committee	No response
CL 2	Texas Society of CPAs (TXCPA) Professional Standards Committee	Yes
CL 3	AICPA PCPS Technical Issues Committee (TIC)	Yes
CL 4	BDO USA LLP	Yes
CL 5	Ernst & Young LLP (EY)	No response
CL 6	RSM US LLP	No response
CL 7	Indiana CPA Society Ethics Committee	No response
CL 8	New York State Society of CPAs (NYSSCPA) Professional Ethics Committee	Yes
CL 9	Ohio Auditor of State	Yes
CL 10	Carr, Riggs, & Ingram, LLC	Yes – They agree with the provision to allow early adoption.

CL 11	KPMG LLP	No response
CL 12	Four Fifteen Group	Yes
CL 13	CliftonLarsonAllen LLP	No response
CL 14	Crowe LLP	Yes
CL 15	National Association of State Boards of Accountancy (NASBA)	No – Given that most recurring attest services are performed annually, a one-year delayed effective date is more appropriate.
CL 16	PricewaterhouseCoopers LLP (PwC)	Yes
CL 17	CohnReznick LLP	Yes
CL 18	Grant Thornton LLP	Yes
CL 19	Deloitte LLP	Yes

Text of proposed revised “Unpaid Fees” interpretation

(Additions are presented in **bold italic** text. Deletions are presented in ~~strikethrough~~. Proposed revisions to the exposure draft are **highlighted in yellow**.)

1.230.010 Unpaid Fees

.01 The existence of unpaid fees to a covered member for professional services previously rendered to an attest client may create self-interest, ~~or undue influence, or advocacy~~ threats to the covered member’s compliance with the “Independence Rule” [1.200.001]. **Unpaid fees include fees that are unbilled or a note receivable arising from such fees.**

.02 **Factors to consider when evaluating whether threats are at an acceptable level include the following:**

- a. **The significance of the unpaid fees to the covered member**
- b. **The length of time the fees have been due from the attest client**
- c. **The attest client’s agreement to pay the unpaid fees**
- d. **The covered member’s assessment of factors affecting the ability ~~and~~ **willingness** of the attest client to pay the fees**

.03 Threats to the covered member’s compliance with the “Independence Rule” [1.200.001] ~~would not be~~ **are at an acceptable level if, when the current year attest report is issued, unpaid fees are both clearly insignificant to the covered member and relate to and could not be reduced to an acceptable level by the application of safeguards if a covered member has unpaid fees from an attest client for any previously rendered professional services provided ~~more~~ **less** than one year prior to the issue date of the current-year attest report. **Alternatively, threats would not be at an acceptable level if, when the current year attest report is issued, unpaid fees are both significant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest report. Other situations **may** require judgment to assess **whether there are** threats to the covered member’s compliance with the “Independence Rule.”** ~~Accordingly, independence would be impaired. Unpaid fees include fees that are unbilled or a note receivable arising from such fees.~~**

.04 **If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level. **Application of more than one safeguard may be required to eliminate or reduce threats to an acceptable level.** ~~If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired. Examples of actions that might be safeguards include the following:~~**

- a. **Have an appropriate reviewer who has not provided attest or nonattest**

services to the [attest client](#) review the attest work performed before the current-year attest report is issued.

- b. Obtain partial payment of the unpaid fees balance before the current-year attest report is issued such that the remaining unpaid balance is insignificant to the covered member.
- c. Obtain an agreement from the attest client Agree to a payment schedule before the current-year attest report is issued.
- d. ~~Select the current attest engagement for pre-issuance or post-issuance review.~~
- e. d. Suspend further work on current attest engagements and not accept new engagements with this attest client until the unpaid fees are clearly insignificant to the covered member.
- f. ~~Communicate with those charged with governance regarding the unpaid fees and the other safeguards applied.~~

.05 Communication with those charged with governance regarding evaluation of the unpaid fees and safeguards applied is not a sufficient safeguard when applied alone; however, it may be considered a safeguard when supplemented by other safeguard(s), such as those noted in paragraph .04a through .04d.

.06 .03 This interpretation does not apply to fees outstanding **unpaid fees** from an [attest client](#) in bankruptcy. [Prior reference: paragraphs .103–.104 of ET section 191]

.07 .04 Refer to the “Fees and Other Types of Remuneration” topic [1.500] for additional guidance.

Compliance audit

Task force members

Nancy Miller (chair), Ian Benjamin, Ralph DeAcetis, Anna Dourdourekas, Staci Henshaw, Lee Klumpp, Flo Ostrum, Lewis Sharpstone, Brittney Williams

Observers

Sonia Araujo, Stephanie Sauer-Watts

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Task force charge

To consider how the independence requirements for compliance audits performed under the Statements on Auditing Standards should be applied and whether those independence requirements should differ in the following circumstances

- When a compliance audit only is performed versus when a compliance audit is performed with the audit of the financial statements of the same attest client, and within these circumstances, consider
 - When the compliance audit includes reporting on a financial statement (for example, a schedule of expenditures of federal awards or comparable schedule) and
 - When the compliance audit does not include reporting on a financial statement (for example, a compliance audit of a proprietary school required by the U.S. Department of Education Office of Inspector General's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Services Administering Title IV Programs*)

A key component in evaluating how to apply the independence requirements will be to determine what entity should be considered the attest client in the compliance audit and whether the affiliate interpretations should apply.

The task force is charged with considering potential revisions to the code and considering what nonauthoritative guidance is needed.

Reason for agenda item

To seek input on

- a proposed new interpretation to the code,
- proposed revisions to the definitions of *financial statement attest client* and *attest client*,
- proposed revisions to the affiliates interpretations, and
- the basis for recommending these revisions.

Unrelated to compliance audits, the task force is seeking approval of the proposed revisions to the definitions of

- *affiliates*, and
- *financial statement attest client*.

Task force activities

The task force drafted a new interpretation (Agenda item 5C) to clarify how the independence requirements should be applied when performing a compliance audit. In addition, the task force drafted conforming revisions to several definitions (Agenda item 5B) and one interpretation (Agenda item 5D). The task force also drafted an outline of the exposure draft that includes a basis for its conclusions (Agenda item 5E).

During task force discussions and its review of the code, the task force noted two revisions it believes are necessary that are unrelated to the scope of this project.

Revisions related to compliance audits

The task force recommends the following revisions or additions to the code:

- a. New interpretation for compliance audits including a definition of a compliance audit attest engagement for this interpretation (Agenda item 5C).
- b. Revisions to the definitions of *financial statement attest client* and *attest client* to refer to the new interpretation related to compliance audits (Agenda item 5B).
- c. Revisions to the “Engagements, Other Than AUPs, Performed in Accordance With SSAEs” interpretation to maintain consistency among engagements similar to compliance audits (Agenda item 5D).

New interpretation for compliance audits

Objective of a compliance audit differs from a financial statement audit

The objective of an audit over a set of financial statements is different from the objective of a compliance audit. Third parties, such as investors or lenders or funding organizations, rely on financial statement audits to obtain assurance over the audit client’s financial position, changes in net position, and cash flows. In contrast, third parties rely on compliance audits to provide assurance on the entity’s compliance with applicable compliance requirements of the third party. A compliance audit may include financial information in the form of schedules or statements. The attest report typically includes an opinion on compliance with a specific set of financial and non-financial requirements.

Because of this, the task force believes the following two exceptions are warranted.

Trivial and inconsequential exception

The task force believes that when performing a compliance audit there may be situations where there are multiple attest clients because there are multiple entities reporting amounts in a

schedule included in the compliance audit. For example, in an audit that is performed in accordance with Uniform Guidance for a state and local government, there may be multiple component units or agencies that include amounts in the schedule of expenditures of federal awards. When there are multiple entities, the task force believes the code would currently consider each entity an attest client and require members to be independent of each entity.

When one of these entities that is considered an attest client reports amounts that are trivial and inconsequential and the entity will not be subject to compliance audit procedures, the task force believes the threats to independence that may exist as a result of relationships or circumstances with the entity would not be significant given the objective of a compliance audit is to report on the compliance requirements of the third party.

Therefore, the proposed new interpretation provides an exception to the independence requirements for entities that will not be subject to the compliance audit procedures and report amounts that are trivial and inconsequential.

Affiliates exception

Under the current code, the task force believes that an entity subject to a compliance audit that includes reporting on a financial statement, such as a schedule of expenditures of federal awards, is considered a financial statement attest client. Therefore, the affiliates interpretations (1.224.010 and 1.224.020) apply which would require independence of the compliance audit attest client and all of its affiliates. When the compliance audit includes multiple entities, each entity would be considered a financial statement attest client and members would need to apply the independence rules and related interpretations to the affiliates of all of the attest clients.

The task force believes that the threats to independence, in fact or in appearance, that may exist related to affiliates of the compliance audit attest client are not significant given the objective of a compliance audit is to report on the compliance requirements of the third party.

Therefore, the proposed new interpretation provides an exception to the independence requirements by relieving the member of the affiliates requirements when the compliance audit meets the definition of financial statement attest client.

Question for the committee

1. Does the committee agree with the overall direction of the task force's considerations related to the new interpretation?

Revisions to refer to the new interpretation

The task force recommends the definitions of *financial statement attest client* and *attest client* and the “Client Affiliates” and the “State and Local Government Client Affiliates” interpretations include a reference to the new interpretation so that members are aware that the requirements differ when performing a compliance audit.

The task force believes that the following should be added to the definition of *financial statement attest client*:

See the “Compliance Audits” interpretation [1.2xx.xxx] for an exception related to compliance audit attest engagements as described within that interpretation.

The task force believes that the following should be added to the definition of *attest client*:

See the “Compliance Audits” interpretation [1.2xx.xxx] for guidance related to the attest client in a compliance audit attest engagement as described within that interpretation.

The task force believes that the following should be added to the “Client Affiliates” interpretation (1.224.010):

.05 This interpretation does not apply to a financial statement attest client that is covered by the “Compliance Audits” interpretation [1.2XX.XXX].

The task force believes that the following should be added to the “State and Local Government Affiliates” interpretation (1.224.020):

.07 This interpretation does not apply to a financial statement attest client that is covered by the “Compliance Audits” interpretation [1.2XX.XXX].

Questions for the committee

2. Does the committee agree with referring to the new interpretation as proposed?
3. Does the committee believe there are other areas in the code in which reference should be made to the new interpretation?

Revisions to “Engagements, Other Than AUPs, Performed in Accordance With SSAEs” interpretation

The task force recognizes that members are requested to perform engagements under the

SSAEs that include reporting on compliance with specific requirements similar to a compliance audit attest engagement under the auditing standards as described in the proposed compliance audits interpretation. As a result, the task force believes that the exception provided for in paragraph .03 of the proposed compliance audits interpretation should apply to similar engagements performed under the SSAEs.

The task force recommends the following paragraph be added to the “Engagements, Other Than AUPs, Performed in Accordance With SSAEs” interpretation (1.297.030):

.04 When performing an engagement, other than an AUP, in accordance with the SSAEs, and the engagement includes reporting on an entity’s compliance with specific requirements that is similar to a compliance audit attest engagement as defined in the “Compliance Audits” interpretation [1.2XX.XXX], the exception provided for in paragraph .03 of the “Compliance Audits” interpretation [1.2XX.XXX] also applies to the engagement performed under the SSAEs.

Question for the committee

4. Does the committee agree with the task force’s recommendation related to similar compliance engagements that are performed under the SSAEs?

Exposure draft

The task force drafted an outline for the exposure draft that includes the basis for its conclusions and its plans for additional information or explanation to be included in the exposure draft which can be found in agenda item 5E.

Question for the committee

5. What other information would the committee like to see in the exposure draft?

Proposed revisions unrelated to compliance audits

Definition of affiliate

During its deliberations, the task force noted that the definition of *affiliate* should refer to the “State and Local Government Client Affiliates” interpretation since that interpretation defines

affiliates in a state and local government environment.

The task force recommends adding the following reference to the affiliate definition:

See the “State and Local Government Client Affiliates” interpretation [1.224.020] for guidance related to identifying affiliates of a financial statement attest client that is a state and local government entity.

Question for the committee

6. Does the committee agree with the task force’s recommended revision?

Definition of financial statement attest client

During its deliberations, the task force noted that the term, *financial statement attest client*, is used within the “State and Local Government Client Affiliates” interpretation [1.224.020], the “Breach of an Independence Interpretation” interpretation [1.298.010] and the “Leases” interpretation [1.260.040] in addition to the “Client Affiliates” interpretation and the definition of *affiliate*. Currently, the definition only indicates that the term is used in the “Client Affiliates” interpretation and the definition of *affiliate*.

Since the term is becoming more widely used in the code, the task force recommends removing the last sentence from the definition of *financial statement attest client* as follows:

~~An entity whose *financial statements* are audited, reviewed, or compiled when the *member’s* compilation report does not disclose a lack of *independence*. This term is used in the “Client Affiliates” interpretation [1.224.010] of the “Independence Rule” [1.200.001] and in the definition of an affiliate [0.400.02].~~

Question for the committee

7. Does the committee agree with the task force’s recommended revision?

Materials presented

- Agenda item 5B: Text of proposed revisions to definitions
- Agenda item 5C: Text of proposed “Compliance Audits” interpretation
- Agenda item 5D: Text of proposed revisions to other interpretation
- Agenda item 5E: Proposed exposure draft outline

Text of proposed revisions to definitions

Proposed additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

Affiliate

The following entities are affiliates of a *financial statement attest client*:

- a. An entity (for example, subsidiary, partnership, or limited liability company [LLC]) that a *financial statement attest client* can control.
- b. An entity in which a *financial statement attest client* or an entity controlled by the *financial statement attest client* has a *direct financial interest* that gives the *financial statement attest client* *significant influence* over such entity and that is material to the *financial statement attest client*.
- c. An entity (for example, parent, partnership, or LLC) that *controls* a *financial statement attest client* when the *financial statement attest client* is material to such entity.
- d. An entity with a *direct financial interest* in the *financial statement attest client* when that entity has *significant influence* over the *financial statement attest client*, and the interest in the *financial statement attest client* is material to such entity.
- e. A sister entity of a *financial statement attest client* if the *financial statement attest client* and sister entity are each material to the entity that *controls* both.
- f. A trustee that is deemed to *control* a trust *financial statement attest client* that is not an investment company.
- g. The sponsor of a single employer employee benefit plan *financial statement attest client*.
- h. Any entity, such as a union, participating employer, or a group association of employers, that has *significant influence* over a multiemployer employee benefit plan *financial statement attest client* and the plan is material to such entity.
- i. The participating employer that is the plan administrator of a multiple employer employee benefit plan *financial statement attest client*.
- j. A single or multiple employer employee benefit plan sponsored by either a *financial statement attest client* or an entity controlled by the *financial statement attest client*. All participating employers of a multiple employer employee benefit plan are considered sponsors of the plan.
- k. A multiemployer employee benefit plan when a *financial statement attest client* or entity controlled by the *financial statement attest client* has *significant influence* over the plan and the plan is material to the *financial statement attest client*.
- l. An investment adviser, a general partner, or a trustee of an investment company *financial statement attest client* (fund) if the fund is material to the investment adviser, general partner, or trustee that is deemed to have either *control* or *significant*

influence over the fund. When considering materiality, *members* should consider investments in, and fees received from, the fund.

See the “State and Local Government Client Affiliates” interpretation [1.224.020] for guidance related to identifying affiliates of a financial statement attest client that is a state and local government.

Financial statement attest client

An entity whose *financial statements* are audited, reviewed, or compiled when the *member’s* compilation report does not disclose a lack of *independence*. This term is used in the “Client Affiliates” interpretation [1.224.010] of the “Independence Rule” [1.200.001] and in the definition of an affiliate [0.400.02].

See the “Compliance Audits” interpretation [1.2xx.xxx] for an exception related to compliance audit attest engagements as described within that interpretation.

Attest client

A person or entity with respect to which an *attest engagement* is performed. [No prior reference: new content]

If the person or entity that engages a *member* or *member’s firm* (member) to perform *professional services* (engaging entity) is not also the attest client, the *member* should refer to the “Client Affiliate” interpretation [1.224.010] to determine whether the engaging entity is an *affiliate* from which the *member* should be *independent*. However, because threats to the *member’s* compliance with the “Integrity and Objectivity Rule” [1.100.001] and the “Conflicts of Interest for Members in Public Practice” interpretation [1.110.010] may still exist with respect to the engaging entity, *members* should comply with this rule and interpretation.

See paragraph .06 of the “Client Affiliate” interpretation [1.224.010] for acquisitions and business combinations that involve a *financial statement attest client*.

See paragraph .03 of the “Simultaneous Employment or Association With an Attest Client” interpretation [1.275.005] for independence guidance related to a member in a government audit organization that performs an attest engagement with respect to the government entity.

See the “Compliance Audits” interpretation [1.2xx.xxx] for guidance related to the attest client in a compliance audit attest engagement as described within that interpretation.

Text of proposed “Compliance Audits” interpretation

1.2XX.XXX Compliance audit

01. For purposes of this interpretation, a compliance audit is an *attest engagement* that is performed under the Statements on Auditing Standards when the *member* is requested to report on an entity’s compliance with specific requirements. For example, the *member* may report on compliance requirements of a contractual agreement or regulatory requirements in accordance with AU-C §806, or report on compliance under governmental audit requirements, such as Uniform Guidance, in accordance with AU-C §935.
02. A compliance audit *attest engagement* may include multiple *attest clients*. For example, multiple *attest clients* may be included on a schedule of expenditures of federal awards (SEFA) in a compliance audit that is performed in accordance with Uniform Guidance. When there are multiple *attest clients* in a compliance audit attest engagement, the “Independence Rule” [1.200.001] and its *interpretations* apply with respect to all of the *attest clients* except as provided for in paragraphs .03 and .04 in this interpretation.

Exceptions

03. When a *member* or *member’s firm* performs a compliance audit, the compliance audit *attest client* would not include any entity that will not be subject to compliance audit procedures and reports trivial and inconsequential amounts.
04. A *member* or *member’s firm* is not required to apply the requirements in the “Affiliates, including State and Local Government Affiliates” subtopic [1.224] when engaged to perform a compliance audit *attest engagement*.

Changes

05. The *member* should be alert to changes to the determination of *attest clients* throughout the engagement. For example, *attest clients* in a compliance audit that is performed in accordance with Uniform Guidance may change as a result of changes in federal expenditures on the schedule of expenditures of federal awards.

Text of proposed revisions to other interpretation

1.297.030 Engagements, Other Than AUPs, Performed in Accordance With SSAEs

01. For purposes of this interpretation, subject matter is as defined in the SSAEs.
02. When performing an engagement, other than an AUP, in accordance with the SSAEs, the application of the “Independence Rule” [1.200.001] is modified, as described in the “Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” interpretation [1.297.010] of the “Independence Rule” and this interpretation.
03. When providing nonattest services that would otherwise *impair independence* under the *interpretations* of the “Nonattest Services” subtopic [1.295], *threats* would be at an *acceptable level* and *independence* would not be *impaired* if the following safeguards are met:
 - a. Nonattest services do not relate to the specific subject matter of the SSAE engagement.
 - b. The “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001] are met when providing the nonattest service.
- 04. When performing an engagement, other than an AUP, in accordance with the SSAEs, and the engagement includes reporting on an entity’s compliance with specific requirements that is similar to a compliance audit attest engagement as defined in the “Compliance Audits” interpretation [1.2XX.XXX], the exception provided for in paragraph .03 of the “Compliance Audits” interpretation [1.2XX.XXX] also applies to the engagement performed under the SSAEs.**

Proposed exposure draft outline

Explanation of the new interpretation and of the revised interpretations and definitions

Purpose

- To consider how independence requirements should be applied in a compliance audit.
- Discuss that diversity in practice has been noted in this area indicating that independence requirements applicable to these engagements are not clear.
- There will be a large number of new not-for-profit single audits and for-profit compliance audits as a result of COVID relief funding and funding under the Infrastructure Investment and Jobs Act.
- The new compliance audits interpretation will apply to any type of entity requiring a compliance audit (e.g., for-profit entities, not-for-profit entities, or state and local government entities).

Overview

- Proposing a new interpretation to provide relief to members from the independence requirements when performing a compliance audit through exceptions related to
 - affiliates when the compliance audit meets the definition of *financial statement attest client*, and
 - entities that will not be subject to the compliance audit procedures and report trivial and inconsequential amounts.
- Proposing revisions to the SSAE interpretation to also provide relief related to entities that will not be subject to the compliance audit procedures and report trivial and inconsequential amounts when an engagement is performed under the SSAEs that is similar to a compliance audit attest engagement.
- Referring members to the “Compliance Audits” interpretation in the definition of *financial statement attest client* to highlight the exception and pointing members to appropriate guidance when identifying attest clients in a compliance audit through the definition of *attest client*.
- Emphasizing that there could be relationships or circumstances that exist outside of what is described in the new interpretation that could require an evaluation of independence under the conceptual framework. Consider providing an example of such circumstance.

Objective of a compliance audit differs from the objective of a financial statement audit

- Explain the scope of the proposed interpretation – it only applies to compliance audit engagements, not to audits of financial statements prepared in accordance with the applicable financial reporting framework (e.g., GAAP).
- Objective of an audit over a set of financial statements is different from the objective of a compliance audit. Third parties, such as investors or lenders or funding organizations, rely on financial statement audits to obtain assurance over the audit client's financial position, changes in net position, and cash flows. In contrast, primarily funding organizations, rely on compliance audits, to provide assurance on the entity's compliance with applicable compliance requirements of the grants, contracts and agreements. A compliance audit may include financial information in the form of schedules or statements. The attest report typically includes an opinion on compliance with a specific set of financial and non-financial requirements.
- In some cases, a compliance audit will include reporting on the accuracy of a financial statement, such as a schedule of expenditures of federal awards (SEFA) or similar schedule.

Evaluating independence for a compliance audit

- Demonstrate how a member would evaluate independence when performing the financial statement audit and the compliance audit for the same attest client(s) through an example.
- Demonstrate how a member may have multiple attest clients for a compliance audit attest engagement through an example.
- Regarding paragraph .05 of the proposed interpretation, explain how there may be changes in the determination of what constitutes the attest client throughout the course of the engagement. Provide example of how the attest client(s) in a compliance audit performed in accordance with Uniform Guidance may change as a result of changes in federal expenditures in the schedule of expenditures of federal awards.

Trivial and inconsequential exception – basis for conclusion

- There may be situations where there are multiple attest clients because there are multiple entities reporting amounts in a schedule included in the compliance audit.
- For example, in an audit that is performed in accordance with Uniform Guidance for a state and local government, there may be multiple component units or agencies that include amounts in the schedule of expenditures of federal awards.
- When there are multiple entities, the task force believes the code would currently

consider each entity an attest client and require members to be independent of each entity.

- The financial statement, such as a schedule of expenditures of federal awards or similar schedule, used in connection with the compliance audit often includes trivial and inconsequential amounts. Many times, entities reporting those trivial and inconsequential amounts are not subject to the compliance audit procedures.
- The cost of compliance with these independence requirements can be high for members when the financial statement includes numerous entities reporting trivial and inconsequential amounts. However, considering the objective of a compliance audit is to report on the compliance requirements that are subject to the compliance audit procedures, the threat to independence that may exist as a result of relationships or circumstances with those entities would not be significant if the amounts reported by those entities are trivial and inconsequential and the entities are not subject to the compliance audit procedures.
- Members would still be required to evaluate their independence using the conceptual framework if they become aware of threats to independence with those entities that report trivial and inconsequential amounts on a schedule in the compliance audit.
- The “State and Local Government Client Affiliates” interpretation includes an exclusion for immaterial entities that are audited by other auditors as well as immaterial entities that are excluded but should be included in the reporting entity’s financial statements, setting a precedent that can be applied to compliance audits. Consider including reminder of what the committee believes is different about state and local governments to support this exclusion.
- Using an example, explain how the exception in paragraph .03 of the new interpretation would apply and clarify that these instances are not routine.

Affiliates exception – basis for conclusion

- Under the extant code, the task force believes that an entity subject to a compliance audit that includes reporting on a financial statement, such as a SEFA, would be considered a financial statement attest client. Therefore, the client affiliates interpretations would apply which would require independence of the compliance audit client and all of its affiliates.
- When the compliance audit includes multiple entities, each entity would be considered a financial statement attest client and members would need to apply the independence rules and related interpretations to the affiliates of all of the attest clients.

- The task force believes that the threats to independence, in fact or in appearance, that may exist related to affiliates of the compliance audit attest client are not significant given the objective of a compliance audit is to report on the compliance requirements of the third party related to the compliance audit attest client only. Therefore, the cost of complying with the affiliate interpretations creates a burden for members that may not be needed given the threats to independence are not significant.
- Members would still be expected to comply with the conceptual framework for independence. Consider including an example of when a member may need to use the conceptual framework for an affiliate.

SSAEs

- When a member is requested to report on an entity's compliance with specific requirements under the SSAEs rather than the SASs, the exception in paragraph .03 of the "Compliance Audits" interpretation is provided for the compliance engagement performed under the SSAEs. Include one or two examples of an engagement to report on an entity's compliance with specific requirements that is performed under the SSAEs.
- This revision is to maintain consistency among different types of engagements that share a similar objective.

Exposure draft questions

- Are the revisions in "Engagements, Other Than AUPs, Performed in Accordance With SSAEs" interpretation (1.297.030) clear as to what independence requirements apply when a member reports on compliance under the SASs versus the SSAEs?
- Additional questions to be added as the task force continues to work through its basis and the examples.

IFAC convergence and monitoring

Working group members

Brian Lynch (chair), Cathy Allen, Nancy Miller, Katherine Savage, Lisa Snyder

AICPA staff

Liese Faircloth, Shannon Ziemba

Working group charge

To identify projects that need to be undertaken due to inconsistencies between the [AICPA](#) and [IFAC](#) codes.

Reason for agenda item

To seek approval to form task forces to determine the convergence needs related to the [Non-assurance services \(NAS\) standards](#) IESBA issued in April 2021.

Working group activities

The working group discussed the AICPA and the IESBA codes on this topic and believes there are enough differences to warrant appointing multiple task forces to determine the necessary convergence steps related to the NAS standards. The IESBA code has the following requirements or addresses services that are absent from or not consistent with the extant AICPA code.

NAS requirements

- Before providing a non-assurance service to an audit client, a firm or network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that
 - the results of the services will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and
 - in the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgements made or activities performed by the firm or network firm when providing the service.
- A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to any of the following:
 - searching for or seeking out candidates.
 - Undertaking reference checks of prospective candidates.

- Recommending the person to be appointed.
- Advising on the terms of employment, remuneration or related benefits of a particular candidate, with respect to the following positions:
 - A director or officer of the entity
 - A member of senior management in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion
- A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt, or other financial instruments issued by the audit client or providing advice on investment in such shares, debt, or other financial instruments.
- A firm or a network firm shall not provide advice in relation to corporate finance services to an audit client where
 - The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and
 - The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Tax services requirement

A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

Legal services

Legal services are prohibited for CPA firms in the United States, but many firms now have network firms that are law firms and some similar services as described in the IESBA code could be provided by CPAs, for example advising on a contract or supporting a client in executing a transaction.

Action needed

The committee is asked to appoint three task forces and provide input on the timing of the projects given the committee's current project timetable:

- Nonattest services – Determine the necessary convergence steps for non-assurance services (self-review, recruiting, corporate finance)
- Tax services – Consider how to address the new tax requirement and whether any other clarifications made to the IESBA tax sections or in the SSTs need to be highlighted in the code or in nonauthoritative guidance
- Legal services – Consider the legal services topic and how this could be addressed by the AICPA code.

IESBA update

Reason for agenda item

To supplement the quarterly verbal update on IESBA's activities and to provide project summaries for some of IESBA's projects and task forces. Division staff welcomes the committee's comments on the projects, including any concerns it believes should be monitored.

Materials presented

- Agenda item 7B: Engagement team
- Agenda item 7C: IESBA tax planning and related services
- Agenda item 7D: Definitions of "listed entity" and "public interest entity"
- Agenda item 7E: Benchmarking
- Agenda item 7F: Technology
- Agenda item 7G: Quality management: related conforming amendments
- Agenda item 7H: Strategy and work plan (SWP)

IESBA Engagement team

Project description

For quality management purposes, the IAASB changed the definition of *engagement team* in ISA 220 to include component auditors that are not part of the network firm and service providers. This revision raised several questions about these individuals' compliance with the International Independence Standards (IISs) in the context of a group audit.

The purpose of this project is to ensure that IISs provide clear and consistent guidance on independence for the following:

- Engagement quality reviewers (EQRs) who are not in the firm or network
- Component auditors who are performing audit procedures and who are outside of the audit firm's network (i.e., individual independence requirements)
- Firms that these component auditors are in (i.e., firm independence requirements)

The proposed ISA 600 (Revised), like the extant ISA 600, establishes a requirement that the group audit engagement partner take responsibility for obtaining a confirmation from component auditors that ethical requirements have been fulfilled for the group audit engagement, including those related to independence.¹

If the component auditor does not meet the independence requirements relevant to the group audit, the proposed ISA 600 (Revised) requires the group engagement team to obtain sufficient appropriate audit evidence relating to the work performed at the component without involving that component auditor.²

Under the extant IESBA code, if a component auditor is from the same network as the group auditor, the component auditor will apply the same independence requirements applicable to the group engagement team when auditing a component. For example, if the parent entity is a public interest entity (PIE),³ all network firms are required to comply with the provisions on non-assurance services (NAS) that apply to the PIE and its related entities (applying the related

1 Exposure draft of Proposed ISA 600 (Revised) (ED-ISA 600), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 20(c)

2 ED-ISA 600, paragraph 22

3 The code defines a "public interest entity" as (a) a listed entity; or (b) an entity: (i) defined by regulation or legislation as a public interest entity; or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

entity principle in paragraph R400.20).⁴

In contrast, the IESBA code is effectively silent on the principles that should apply to a component auditor outside the group auditor's network. Accordingly, subject to a different agreement between the group auditor and the component auditor, the component auditor will apply the independence requirements in the IESBA code relevant to its audit client (i.e., the component).

AICPA Staff and PEEC input on the project

No input has been provided thus far.

Status

At its December 2021 meeting, IESBA's Engagement Team — Group Audits Independence Task Force presented a final read of its [draft text](#) as well as [proposed conforming amendments](#). This document does not discuss the details of the conforming amendments. For additional background, refer to IESBA's [project page](#).

Following are the main items addressed by this project and the status of each.

Engagement quality reviewers

Because the extant definitions of the terms *audit team*, *review team*, and *assurance team* scope in only EQRs within the firm or the network, the proposal revises these definitions to scope in EQRs from outside of the firm or network.

To do this, the task force added to all three definitions that individuals who can directly influence the outcome of the engagement include those who are engaged by the firm. They also revised item (b) (iii) in each definition as follows (excerpted from the "Glossary, Including Lists of Abbreviations" section of the IESBA code):

- Audit team (b)(iii): Those who ~~provide~~ **perform an engagement quality review, or review consistent with the objective of** ~~control for the audit engagement, including those who perform the~~ **an** engagement quality ~~control~~ review, for the engagement; and
- Assurance team (b)(iii): Those who ~~provide~~ **perform an engagement quality review, or review consistent with the objective of an engagement quality review,** ~~control for the assurance engagement, including those who perform the~~

4 Paragraph R400.20 states the following: As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

engagement quality control review for the engagement; and

- Review team (b)(iii): Those who provide **perform an engagement quality reviews, or review consistent with the objective of an engagement quality review**, control for the engagement, including those who perform the engagement quality control review for the engagement; and

Definition of engagement team

The task force recommends

- revising the extant definition of *engagement team* to align with the definition of that term in International Standard on Quality Management (ISQM) No. 1.
- including additional guidance to clarify the nature of the various teams in reference to the different parts of the code.

The task force recommends the definition of *engagement team* be revised as shown in the following paragraph.

Engagement team: All partners and staff performing the engagement, and any **other** individuals engaged by the firm or network firm who perform assurance procedures on the engagement. This excludes **excluding** external experts engaged by the firm or by a network firm **and internal auditors**. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on **the** an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*. This excludes external experts engaged by the firm or by a network firm.

In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.A.

ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA 620 deals with the auditor’s responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.

Individual independence

The task force believes that the same independence considerations that apply to individuals from component auditor firms within the network should be applied to component auditors outside of the group auditor’s network. This is because the work of the individuals from the non-network firms contributes to the audit opinion on the group financial statements just as much as the work performed by individuals from component auditor firms within the network.

The task force believes that taking a consistent approach to personal independence, whether an individual is from a network firm or non-network firm, will eliminate any perception that the independence of component auditors on the engagement team outside the network is less important than that of component auditors on the engagement team within the network.

In addition, because the concept of a component⁵ under ED-ISA 600 is no longer limited to a corporate entity, the independence standards should also require independence of the individuals involved in the group audit engagement of any components that are not related entities.

The requirement that members of the group audit team be required to be independent of the group audit client was clarified as reflected by the green highlighted text:

R405.4 All members of the audit team for the group audit shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

Firm independence of component auditor outside of network

When a component auditor is within the group auditor’s network the IESBA code already requires network firms to be independent. Accordingly, the proposal focuses on firms that are outside of the group auditor’s network.

The general rule proposed is that a firm that is outside of the group auditor’s network (and any

5 ED-ISA 600 (Revised) defines a “component” as follows: “A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.” Paragraph A4 of ED-600 notes that “the group engagement team uses professional judgment in determining the components for which audit procedures will be performed (by the group engagement team or component auditors on its behalf). The way components are viewed for purposes of planning and performing a group audit may be influenced by the group structure but may or may not be aligned with the way in which the group is organized, which could be, for example, by legal entities, geographic locations, or lines of business.”

of its network firms), should be independent of the component it is auditing using the PIE or non-PIE standard that is applicable to the group audit client. To help firms apply this general rule, the proposal includes three examples of how firms should apply the non-assurance services provisions. Prior to the December 2021 meeting there was only one example.

The proposal also requires the component firm *not* have a financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion. While initially the task force proposed this prohibition should only apply to PIEs, after feedback from the IESBA, the task force proposed that this prohibition be applicable for *all* group audit clients. The task force does not believe that the level of the threats to independence would warrant going beyond this entity (e.g., ultimate parent entity that is above the group audit client or sister entity to the component entity) This prohibition, however, would not extend to the component firm's network firms⁶.

During the December 2021 meeting, the board agreed to extend the requirements and application material related to loans and guarantees (Section 511) to component firms that are outside of the network. Paragraph R405.6 was revised to incorporate this new requirement. Since it was not included in the agenda papers that are available online, it is included in the box below.

R405.6

A component auditor firm outside the group auditor firm's network:

- (a) Shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;
- (b) Shall not hold direct or material indirect financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c) Shall, in relation to Section 511 regarding loans and guarantees, apply the relevant specific requirements and application material with respect to the entity on whose group financial statements the group auditor firm expresses an opinion.

⁶ This less restrictive position is not applicable to the firm issuing the audit opinion on the group financial statements and its network firms. These entities would need to be independent of the group audit client, its related entities and any other components scoped in under proposed ISA 600 (Revised).

The proposal also requires that when a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance:

- involving the group audit client is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating, and addressing threats to independence.
- of a firm within the component auditor firm's network with the component audit client or the group audit client creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

The proposal also clarifies when the component audit partner is required to apply the provisions applicable to key audit partners. This is required when the group engagement partner communicates to the component audit partner that they are considered a key audit partner because they make key decisions or judgement on significant matters with respect to the group audit client.

Breaches of an independence requirement by a component auditor outside of network

The general approach for a breach of independence by a component auditor that is outside of the network is the same as the process that should be followed by a component auditor that is in the network except, the component auditor outside of the network would not need to communicate with those charged with governance.

At a high level, the process for a component auditor outside of the network would be as follows:

- Evaluate the significance of the breach and its impact on the firm's objectivity and ability to express an opinion on the component audit client's financial information for group reporting purposes.
- Determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.
- Promptly report the breach to the group audit partner and include the assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

Upon receiving notification of a breach by a component auditor outside of the firm, the group audit partner should do the following:

- Review the assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.
- Evaluate whether the breach would prohibit them from relying on the component auditor.
- Determine if any further action is necessary.

- Discuss with those charged with governance (TCWG) the details of the breach, whether the action proposed or taken addresses the breach, and the firm's rationale for how the breach impacts its objectivity.

If TCWG do not concur that the actions proposed or taken by the component auditor firm satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm should not use the work of the component auditor for the group audit. In addition, the group audit firm should determine whether to perform further or alternative procedures or perform, itself, the necessary audit work procedures on the component audit client, to obtain such concurrence.

Convergence considerations

Staff's initial assessment of IESBA's recent activity in this area is that PEEC may not need a convergence project for EQRs as the definition of an attest engagement team seems to be drafted broadly enough to include EQRs.

The definition reads "Those individuals participating in the *attest engagement*, including those who perform concurring and ***engagement quality reviews***." (Emphasis added)

However, PEEC may need a convergence project to provide guidance related to component auditors who are outside of the network firm since the code does not provide any specific guidance for these auditors.

IESBA Tax Planning and Related Services

Project description

The [project proposal](#) explains that the objective of the project is to develop a principles-based framework, leveraging the fundamental principles and the conceptual framework, to guide professional accountant's ethical conduct when providing tax planning and related services to employing organizations and clients, thereby maintaining the code's robustness and relevance as a cornerstone of public trust in the global accountancy profession.

At a high level, the approved project proposal explains that the framework would

- Provide guidance to assist the professional accountant in identifying what might be deemed acceptable or unacceptable tax planning behavior in the context of the fundamental principles. The project will explore the following approach:
 - Understand the applicable tax laws and regulations, including as far as possible the legislative intent, and comply with them.
 - Obtain an understanding of the rationale for the particular tax scheme¹, structure or transaction, taking into account a reasonable and informed third party's perceptions. In this regard, the project will develop guidance on indicators of what might be deemed acceptable vs. unacceptable tax planning in the light of understanding that rationale, drawing on the work done by other organizations.
 - If there is no intent to promote an indication or perception of unacceptable tax planning, provide guidance on applying the conceptual framework to the tax planning facts and circumstances, i.e., what types of threats might be created and what actions, including safeguards, might address the threats. This might include guidance to navigate situations where the legislative intent behind tax laws and regulations is uncertain.
- Address circumstances where there might be undue pressure, whether from management or from a client, to skirt the boundaries of what might be deemed acceptable tax planning. Linking to the provisions of the code addressing pressure to breach the fundamental principles might be appropriate in this regard.
- Recognize that an inducement might be offered to achieve certain tax outcomes in strict noncompliance with tax legislation. Linking to the provisions of the code addressing inducements might be appropriate in this regard.
- Provide guidance with respect to when communication with management or those charged with governance (TCWG) would be appropriate, including as part of an

¹ The term "scheme" is used by IESBA.

escalation process, and the matters or concerns that might be communicated. In this regard, professional accountants in business (PAIBs) might be guided to consider internal protocols, policies or procedures for referring matters.

- Provide guidance on when and with whom to consult (internally or externally), which might be a part of specific actions to address identified threats.
- Address considerations relating to transparency balanced against the professional accountant's duty of confidentiality under the code, including the circumstances in which transparency would be appropriate or justified (e.g., as a safeguard to address threats, to disclose risks from uncertainties, or to disclose the rationale for a particular tax scheme, structure or transaction intent), when informed consent for disclosure should be obtained in the case of clients, to whom disclosure might be made and when, and the matters that might be disclosed.
- Address any documentation expectations for the professional accountant.

AICPA Staff and PEEC input on the project

Staff shared the following concerns about the approved project proposal with the chair of the working group:

- Continue to be concerned that the task force will get involved with matters outside of its purview such as tax morality.
- Continue to be concerned that the task force believes the guidance they develop should supersede ethical tax standards to the extent those standards differ in a particular jurisdiction. Emphasized that the project should also “respect and not undermine national sovereignty to enact and promulgate” not only “tax laws and regulations as each jurisdiction sees fit” but ethical tax standards. Doing so could help with the issue that the working group has already identified in their report that there is no clear line between tax planning and aggressive tax planning since many jurisdictions have in fact determined what is aggressive tax planning for their constituents.

AICPA staff welcomes PEEC's comments on the project including any concerns it believes should be monitored or conveyed to the task force or IESBA.

Status

During the December 2021 meeting, the task force shared [preliminary views](#) of the distinctions among the concepts of tax morality, tax fairness and tax justice, and a professional accountant's responsibility to act in the public interest in the context of tax planning.

Tax morality

The task force's preliminary view is that understanding the drivers of tax morality, for individuals

and businesses, and in particular the role of tax uncertainty, can provide useful context when considering factors that might influence a professional accountant's ethical behavior when performing tax planning activities.

The task force will further explore whether, and if so, how the IESBA code can be positioned to play a more significant role in assisting professional accountants to contextualize complexity in assessing the ethical risks relating to tax planning activities.

Tax fairness and tax justice

Based upon its research, the task force notes that tax fairness and tax justice principles or frameworks encourage taxes to be paid where income is earned and for society to perceive a condition of tax fairness, there needs to exist an equitable tax system enforceable via legislation. Most tax fairness and tax justice advocates argue for the closing of loopholes in tax laws and regulations that allow specific individuals and corporations to avoid paying taxes altogether.

The task force observed that the concepts of tax fairness and tax justice are tightly entwined with the notion of equity and society's perceptions of doing what is right to advance the quality of life. On a political level, criticisms could be levied against tax regimes that are perceived as not equitable or fair. However, the task force believes that it would not be appropriate for professional accountants within their roles to make judgments about whether the tax regimes in their jurisdictions are fair or just or seek through their actions to compensate for any perceived lack of such fairness or justice.

So, while the task force acknowledges that tax fairness and tax justice are concepts linked to society's perception of the public interest, they are areas that are outside the scope of this project. Nevertheless, the task force believes the dimensions of tax fairness and tax justice are important contextual factors for professional accountants to consider in relation to the reputational risks (i.e., threats to the fundamental principle of professional behavior) they might create if there are perceptions of professional accountants taking advantage of "unacceptable" tax planning strategies or practices.

Professional accountant's responsibility to act in the public interest

Some of the task force's preliminary views on the professional accountant's responsibility to act in the public interest include:

- There is a need to balance the interests of the client or employing organization and its stakeholders (investors, creditors, employees, etc.) against those of the jurisdiction's treasury. If a client or employing organization pays more tax than its legally presumed "fair share," this benefits the treasury but harms the client's or employing organization's stakeholders. Conversely, if a client or employing organization pays less, this benefits the client's or employing organization's stakeholders and harms the treasury. This

conceptual view of the public interest is closer to a “zero sum” game. In contrast, the public interest in an audit context aspires to a “win-win” outcome based on serving the collective interests of stakeholders alongside management’s interests.

- It is important that any judgment or decision the professional accountant makes does not place the professional accountant at odds with the national public interest of the jurisdiction in which the professional accountant works.
- The exercise of professional judgment will be especially important when considering the professional accountant’s responsibility to act in the public interest, particularly in tax planning situations involving complexity or uncertainty. Professional accountants will need to adhere to the fundamental principles and document their professional judgment appropriately should tax authorities challenge their judgments or decisions in such situations.
- The Public Interest Oversight Board’s [Public Interest Framework](#) will provide good guidance as the task force progresses work on the development of an exposure draft.

Convergence considerations

It is too early to determine convergence considerations; however, staff is keeping the tax division abreast of the project.

Definitions of “listed entity” and “public interest entity”

Project description

To review, in coordination with the IAASB, the definitions of “listed entity” and “public interest entity” (PIE) in the IESBA code and revise them as necessary so that they remain relevant and fit for purpose.

This will involve the following:

- Establishing agreement between IESBA and the IAASB on a common revised definition of the term *listed entity* that will work for both boards’ standards
- Forging a path to achieve the greatest level of convergence possible of the concepts underpinning the definition of a PIE in the IESBA code and the description of an “entity of significant public interest” (ESPI) in the IAASB standards

The project is focused on audits of financial statements and auditor independence.

AICPA Staff and PEEC input on the project

On May 7, 2021, a [comment letter](#) was submitted on IESBA’s [exposure draft](#).

Status

During the December 2021 meeting, IESBA adopted the [proposals](#). If the Public Interest Oversight Board (PIOB) approves the proposals, they will be released in April 2022 and be effective for audits of financial statements for periods beginning on or after December 15, 2024.

Definition of PIE

One of the revisions agreed to was to remove proposed categories (d)¹ and (e)² from the definition of PIE. These two categories were added as examples of possible categories that bodies such as PEEC might consider adding if it believes there is significant public interest in them.

Firm requirement to treat additional entities as PIEs

The adopted standard encourages firms to determine whether to treat additional entities as PIEs instead of requiring firms do this and provides some factors that might help firms determine when this is necessary.

Disclosure

The adopted standard continues to require public disclosure but clarifies that what is being

¹ An entity whose function is to provide post-employment benefits.

² An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public

disclosed is that the firm applied the independence requirements for PIEs when performing its audit. The adopted standard now allows firms to skip the disclosure requirement when doing so will result in disclosing confidential future plans of the entity.

Definition of publicly traded entity

The adopted definition of “publicly traded entity” was revised to clarify two that (1) a listed entity is an example of a publicly traded entity and (2) second-tier exchanges should be considered in addition to primary stock exchanges.

Convergence considerations

The AICPA code does not currently subject auditors of PIEs to enhanced independence safeguards and its definition of PIE specifies only two categories of entities³. As such, the committee will need to determine whether to converge with this new standard and if so, how to refine the IESBA categories for the U.S. environment and what enhanced independence standards need to be added to the code.

Because the AICPA’s extant definition of PIE would subject auditors of these entities to the enhanced independence requirements of the SEC and PCAOB, the committee has not taken steps to converge with the IESBA enhanced independence requirements specific to PIEs.

Staff will work with the IFAC Convergence and Monitoring task force to determine next steps.

³ The two specified categories are as follows:

- All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.
- Any entity for which regulation or legislation requires an audit to be conducted in compliance with the same independence requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

IESBA Benchmarking

Project description

To compare the provisions in the International Independence Standards (IISs) that are applicable to public interest entities (PIEs) to the relevant independence requirements that apply in major jurisdictions, starting first with the requirements of the U.S. SEC and the U.S. PCAOB.

The goal of the initiative is an assessment of the alignment of the IISs and independence requirements in major jurisdictions and will help identify any substantive differences.

IESBA envisions that the outcome of this initiative will promote awareness and adoption of the IISs and the IESBA code more broadly. In addition, it will also help IESBA understand whether it should evaluate specific areas and, if appropriate, address these as part of its future strategy and work plan.

AICPA Staff and PEEC input on the project

Staff welcomes PEEC's comments on the project including any concerns it believes should be monitored or conveyed to the project task force or IESBA.

Status

At the December 2021 IESBA meeting, the working group shared a [working draft of the phase 1 report](#). The working group hopes to have an updated report to the board in January 2022 with feedback due in February 2022 so that the working group can report back in March 2022 and issue the final report in Q2 of 2022.

Phase 1

Phase 1 is limited to providing an overview of the differences between the IISs and the U.S. SEC and U.S. PCAOB requirements. The comparison will highlight areas where the two sets of requirements are substantively similar in approach or outcome or both.

The analysis in the report focuses on whether the provisions/rules address the same issues and achieve the same substantive outcomes and the focus areas and topics covered are those that are of greatest interest to IESBA, users of the IESBA code and other stakeholders.

The focus areas and topics that will be included in the report are:

- Overarching Principles and Approach (including noncompliance with laws and regulations)
- Key Definitions
- Fee-related Provisions
- Permissibility of Non-Assurance Services (NAS) to Audit Clients, Including Prohibited

Services

- Auditors' Communication with Those Charged With Governance (TCWG) about Independence Matters, Including Pre-approval of NAS and Disclosures about Fees
- Financial Relationships
- Business Relationships
- Partner Rotation/Long Association
- Gifts and Hospitality

The draft content for the Financial Relationships and Partner Rotation/Long Associations sections was pending as of the December 2021 meeting.

Phase 2

The working group outlined the potential criteria for selecting the next jurisdiction to compare:

- Reach of output (number of professional accountants covered by the jurisdiction) and level of international relevance (such as regulatory interest)?
- Are standards stable in the jurisdiction (not in flux) or recently updated? This means that if the standards are in flux because they are being revised, it might not be the right time to conduct a benchmark.
- Is benchmarking of interest to the jurisdiction (e.g., would help with the adoption of the code)?
- Has the jurisdiction conducted prior comparison work that can be built on, and/or can they contribute resources to the initiative? The working group would have to evaluate whether this prior work could be used to leverage their efforts.
- Does the working group have access to subject matter experts?
- What is the expected scope and difficulty of the work (similarly of structure and context between the code and standards in the jurisdiction, etc.)?

Convergence considerations

While the project itself will not result in convergence, AICPA staff plans to use the final report to identify potential topics that may warrant further consideration by the division and PEEC, including whether the report could facilitate a comparison of the IESBA and AICPA codes.

Technology

Project description

To propose technology-related revisions to the IESBA code and to develop nonauthoritative material.

The project has two workstreams. The standard-setting workstream is being performed by the Technology Task Force (TTF) and is focused revisions to the IESBA code.

The fact-finding¹ and development of nonauthoritative material² is being conducted by the Technology Working Group (TWG).

AICPA Staff and PEEC input on the project

Staff welcomes PEEC's comments on the project including any concerns it believes should be monitored or conveyed to the TTF, TWG, or IESBA.

Status

IESBA approved the TTF's proposals for exposure. At the time this summary was prepared the exposure draft had not yet been issued. Once issued, the exposure draft *will* be available on the [IESBA Open Public Consultation](#) page and the related press release will be available on the IESBA's [News](#) page. IESBA staff believes these documents will be issued on or about February 4, 2022.

Professional competence and due care

The proposal includes revisions to the *Professional Competence and Due Care* subsection.

One addition emphasizes that serving clients and employing organizations with professional competence and due care involves the application of interpersonal, communication and organizational skills. The task force acknowledges that these skills are not necessarily limited to technology; however, they are increasingly regarded as critical skills for the future-ready accountant.

The other addition to this subsection is a requirement that when professional accountants believe it is appropriate to make users aware of the limitations inherent in their services or

¹ The TWG will conduct fact-finding and information gathering on disruptive technologies and related issues, including blockchain (e.g., cryptocurrencies and initial coin and security token offerings), cyber-security, cloud-based services, internet of things (IoT), and data governance.

² The TWG plans to develop nonauthoritative materials related to ethical leadership in an era of complexity and digital change; confidentiality and privacy; auditor independence; and accountability and transparency.

activities, they provide sufficient information to enable the recipient to understand the implications of such limitations. Though the task force acknowledges this communication is not limited to technology, they believe this addition is in line with increasing public demand for transparency.

Confidentiality

The proposal includes an addition to the *Confidentiality* subsection to emphasize the professional accountant's role in more actively protecting confidential information given changes in public expectations.

Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to secure such information in the course of its collection, use, transfer, storage, dissemination, and lawful destruction.

The proposal also includes a definition of confidential information.

Confidential information: Any information, data, or other material in whatever form or medium (including written, electronic, visual, or oral) that is not in the public domain.

The proposal includes refinements to paragraph 114.A3 to enhance the flow of the *Confidentiality* subsection and to modernize the characterization of means of communications. The proposed refinements to this paragraph are:

In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed means ~~type~~ of communicating, **the information** and ~~to whom it is addressed~~.
- Whether the parties to whom the **information** communication is **to be** addressed **or access is to be granted** are appropriate recipients.

Professional Ethics Division staff will work with PEEC's Protecting Client Confidentiality and Data Security Task Force to determine what the implications are to the AICPA code.

Complex circumstances and applying the conceptual framework

The proposal recognizes that complex circumstances might increase the challenges of applying the conceptual framework - but is not a new threat per se. It describes the facts and circumstances that increase the challenges in applying the conceptual framework in complex circumstances and provides examples of actions that might help professional accountants manage and mitigate the challenges arising from such circumstances.

The proposal explains that complex circumstances arise where the relevant facts and circumstances involve (a) elements that are uncertain; and (b) multiple variables and assumptions, which are interconnected or interdependent. The proposal also acknowledges that these facts and circumstances might also be rapidly changing.

Following are examples of possible actions included in the proposal:

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process
- Using technology to analyze relevant data to better inform the accountant's judgement
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of inherent uncertainties or difficulties arising from the facts and circumstances
- Monitoring any developments or changes in facts and circumstances and assessing whether they might impact any judgments the accountant has made

Organizational culture

The proposal includes application guidance to the conceptual framework that explains professional accountants are expected to demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant or the firm or employing organization has a professional or business relationship.

Factors that impact the application of the conceptual framework when technology is used

The proposal explains that when a professional accountant (in business or in public practice) relies on output from technology, the following factors may help identify threats to the fundamental principles:

- Whether the information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose in which it is to be used.

- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the accountant or the employing organization/firm.
- Whether the technology was designed or developed by the accountant or employing organization/firm and therefore might create a self-interest or self-review threat.

Using or relying on the work of others or on the output of technology

The proposal adds explicit references to technology relating to using or relying on the work of others and provides factors to consider when determining whether reliance on technology is reasonable. The proposal also highlights that the professional accountant's position may be a factor to consider because the position could affect the opportunity and ability to obtain the needed information.

The factors included in the proposal are as follows:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether the technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The employing organization's/firm's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.

Prohibition on assuming management responsibilities

The proposal includes a reminder that when technology is used in performing a professional activity for an attest client, the prohibition on assuming a management responsibility applies regardless of the nature or extent of such use.

Business relationships

The proposal expands one of the examples and adds an additional example of what could constitute a close business relationship to the *General* subsection of the *Business Relationships*

section of the IISs.

The example that explains a close business relationship would include situations where a firm or client distributes or markets the other's products was expanded to include situations where the products or services or sold or resold. The new example of a close business relationship involves arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

In response to the 24% of survey respondents who indicated that they did not think that non-assurance services (NAS) provisions are relevant when a firm licenses technology that performs NAS to the audit client, the proposal adds a reminder to this section that the NAS provisions in fact do apply. The reminder also clarifies that this not only applies when a firm licenses technology but when a firm provides, sells or resells such technology. This reminder was also added to the introduction discussion of the NAS provision (i.e., section 600).

Threats when providing non-assurance services

The proposal includes an additional technology-related factor that is relevant in identifying the different threats that might be created by providing NAS to an audit client and evaluating the level of such threats.

The client's dependency on the service, including the frequency with which the service will be provided.

Accounting and Bookkeeping Services

The proposal adds application guidance to the *Accounting and Bookkeeping Services* subsection of the IISs to highlight that automated nonattest services are not necessarily routine and mechanical.

Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how the technology functions and whether the technology is based on expertise or judgment attributable to the firm or the network firm.

Information technology system services

The proposal adds the following application guidance to the *Information Technology System Services* subsection of the IISs:

- Provide an expanded description of information technology (IT) systems services to highlight that the services related to IT systems extend beyond the design, or implementation of hardware or software systems. The expanded description includes
 - Designing or developing hardware or software IT systems.
 - Implementing IT systems, including installation, configuration, interfacing, or

customization.

- Operating, maintaining, monitoring, or updating IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client.
- Clarify what the client is required to do to ensure the firm does not assume a management responsibility and adds two examples of services that would involve assuming a management responsibility. One example is when a firm or network firm operates the audit client's network security, business continuity or disaster recovery function. The other example is when the firm or network firm provides services in relation to the hosting (directly or indirectly) of an audit client's data. With respect to the hosting services example, it is clarified that collecting, receipt and retention of data provided by the audit client to enable the provision of a permission service would not result in assuming a management responsibility.
- Incorporate examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting:
 - Designing, developing, implementing, operating, maintaining, monitoring, or updating IT systems.
 - Supporting an audit client's IT systems, including network and software applications.
 - Implementing accounting or financial information reporting software whether or not it was developed by the firm or a network firm.

Status of the TWG activities

The TWG provided a deep dive into its Q4 2021 activities in its [agenda paper](#). Some highlights include:

- Received two presentations from external parties
 - Cybersecurity: State of Play
 - Robotic Process Automation (RPA): Transforming the Finance Function
- Attended the virtual MIT EmTech Virtual Conference
- Conducted 8 targeted outreach meetings with three important stakeholder groups (TCWG, public sector and PAIBs)
- Screening individuals to serve on the IESBA Technology Advisory Group (TAG) and what that group's specific responsibilities and priorities will be

Convergence considerations

Professional Ethics Division staff has not yet performed a preliminary assessment.

IESBA Quality Management: Related Conforming Amendments

Project description

The objective of this project is to develop conforming amendments to the code so that the code is aligned and interoperable with ISQM 1 and ISQM 2. The project is focused on relevant provisions in Parts 1, 3, 4A and 4B of the code that refer to ISQM 1 or ISQM 2, or terms and concepts used or defined in those two quality management standards.

AICPA Staff and PEEC input on the project

PEEC submitted a [comment letter](#) on the August 2021 [exposure draft](#). PEEC agreed with the proposed conforming amendments as well as the proposed effective date.

Status

At its December 2021 meeting, IESBA adopted the amendments. The amendments are expected to be issued in April 2022, after approved by the Public Interest Oversight Board (PIOB), and will be effective December 15, 2022.

Revisions to terminology

To align terminology in the code to ISQM 1 or ISQM 2 terminology, the following revisions were made:

- The phrase “quality control” was replaced with “quality management”.
- The term “monitored” was replaced by “operated” when referring to quality management policies and procedures “designed, implemented and ~~monitored~~ **operated**”. In some instances, the code only mentioned that these policies and procedures were “designed and implemented”. In these situations, IESBA added “operated” to align with the new terminology.
- The term “control” was eliminated from the phrase “engagement quality control review” and “engagement quality control reviewer”.

Conceptual framework: Considerations for Audits, Reviews and Other Assurance Engagements

The conceptual framework in Part 1 provides application guidance in paragraph 120.15 A3 that acknowledges that a quality management system designed and implemented by a firm in accordance with the IAASB’s quality management standards may assist with identifying and evaluating threats. In addition to replacing the term “monitored” with “operated”, IESBA made two additional clarifications. The phrase “the existence of” was eliminated from the sentence because it isn’t the existence of the system, rather it is the actual design, implementation and operation of the system of quality management that represents the conditions, policies and procedures. In addition, the term “system” was relocated to the beginning of the sentence. The adopted sentence now reads as follows with the revisions to the exposure draft highlighted in

yellow:

In the context of audits, reviews and other assurance engagements, ~~the existence of a~~ **system of** quality management ~~system~~ designed, and implemented **and operated** by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

Applying the conceptual framework – Professional accountants in public practice

The conceptual framework in Part 3 explains in the “Firm and its operating environment” section that a professional accountant’s evaluation of the level of a threat might be impacted by the work environment within the accountant’s firm and its operating environment and provides examples of when this might happen. One example listed is:

The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.

The exposure draft sought input on whether the phrase “including decisions about accepting or providing services to a client” should be deleted because this provision implies that the engagement partner makes the decision to accept or continue the client engagement. It was observed that paragraph 30 of ISQM 1 addresses judgments by the firm about whether to accept or continue a client relationship or specific engagement. It was also observed that paragraph 22 of ISA 220 (Revised) requires the engagement partner to determine that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. As a result, it was argued that the firm makes the decision whether to accept or continue a client relationship or specific engagement and the engagement partner confirms that the firm followed its policies or procedures in this regard.

IESBA agreed to retain the phrase noting that authority and accountability rest with individual professional accountants in public practice (PAPPs) within the firm even though decisions about accepting or providing services to a client are those of the firm. Additionally, in some jurisdictions, engagements are required to be under the names of engagement partners for licensing, regulatory or other reasons. Based upon feedback, IESBA agreed to add the term “any” before the phrase “decisions about accepting or providing services to a client”.

Client and engagement acceptance

Among other topics, the “Professional Appointments” section of the code discusses the client and engagement acceptance process. This topic explains that a self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services. It goes on to provide factors that are relevant in evaluating the level of

such a threat. One such factor listed is:

The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

The exposure draft proposed that this factor be replaced with:

Whether the firm has implemented policies or procedures, as part of a system of quality management in accordance with ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

The reasoning behind this replacement is because the quality objective in paragraph 30(a)(ii) of ISQM 1 deals with the firm's ability to perform the engagement (including the competence/capabilities of the engagement team). In addition, ISQM 1 requires the firm to identify quality risks to the achievement of this quality objective and design responses (policies or procedures) to address the quality risks. As such, there is a threat to the firm's ability to meet the quality objective when the policies or procedures designed and implemented by the firm to meet the quality objective are deficient. So, the threat to assigning individuals lacking the appropriate competence is higher when the policies or procedures designed and implemented by the system of quality management (SOQM) are not effective.

IESBA adopted this proposal with revisions. The "or" was replaced by "and" in the phrase "policies and procedures" to be consistent with the code¹. In addition, so that the code does not presume ISQM 1 is adopted, the phrase "quality management standards such as" was added. The adopted sentence now reads as follows with the revisions to the exposure draft highlighted in yellow:

Whether the firm has implemented policies **or and** procedures, as part of a system of quality management in accordance with **quality management standards such as** ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements

Applying the conceptual framework to independence for audit and review engagements

The introduction section to the conceptual framework in Parts 4A and 4B includes a general discussion about ISQC 1. The exposure draft proposed revisions to the discussion in

¹ Similar replacements were adopted to paragraphs R400.53 (c) and 400.53 A4 and to item (b) of the Network definition.

paragraphs 400.4 and 900.3 to align with ISQM 1. The proposed revision to 400.4 follows².

~~ISQC~~ **ISQM 1** requires a firm to establish policies and procedures designed to **design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. provide it with reasonable assurance that **As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence.** ~~Under ISQM 1, relevant ethical requirements are those related to the firm,~~ its personnel and, where applicable, others subject to **the independence requirements to which the firm and the firm's engagements are subject** (including **the network, network firms, firm personnel individuals in the network or network firms, or service providers**), maintain independence where required by relevant ethics requirements. ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. ~~A Firm~~ assigns **operational** responsibility for **compliance with independence requirements** to an individual(s) in accordance with ~~ISQM~~ **ISQC 1**. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.**

IESBA agreed to delete the parenthetical "(including **the network, network firms, firm personnel individuals in the network or network firms, or service providers**)" to respond to concern expressed by commenters regarding the concept of "service providers," which is not defined in the extant Code but in ISQM 1. This inconsistency is being addressed under the Engagement Team – Group Audits Independence (ET-GA) project.

Breach of an independence provision

IESBA agreed to make conforming revisions to two points in the guidance related to breaches.

- When a firm concludes an independence breach has occurred, it is required, under R400.80, to communicate the breach in accordance with its policies and procedures to certain parties. One of the required parties are "Those with responsibility for the policies and procedures relating to independence." To better describe this party IESBA agreed to revise this category to "The individual(s) with operational responsibility for compliance with independence requirements."

² Since the revisions to 900.3 are similar they are not reflected in this paper.

- The application guidance to this requirement acknowledges in paragraph 400.80 A1 that a breach might occur “despite the firm having as system of quality management designed to address and maintain independence.” IESBA agreed to refine this statement to “address independence requirements” since because “maintaining” independence is inconsistent with ISQM 1.

Convergence considerations

Staff has not yet performed a preliminary assessment.

IESBA Strategy and work plan (SWP)

During the December 2021 meeting the IESBA Planning Committee provided IESBA with a [mid-cycle status update](#) on the progress and commitments in the SWP 2019-2023, sought agreement on for the [workplan for 2022-2023](#) and exchanged preliminary views on potential [topics or matters to include in the upcoming survey](#) for development of the SWP 2024-2028.

Some of the feedback provided on these items include:

- Consider an initiative to work with local jurisdictions to help them adopt the significant volume of changes made to the code.
- Consider developing a standardized process for post-implementation reviews so the process can be streamlined especially since IESBA plans to conduct four over the next two years.
- Given the connection to technology, would like to see the “New Services Delivery Model” project progress before 2023.
- More work should be done on preparation and presentation of, and reporting on, Environmental, Social and Governance (ESG) information. Close coordination with the IAASB on this issue will be important.

Project update and call for volunteers

Reason for agenda item

To provide an overview of projects that have been completed since the November 2021 meeting and to solicit volunteers for projects that will begin in 2022.

Projects completed since November

- [Practice aid: Independence considerations for information system services](#)
- [Quiz: Ethical standards to consider when accepting or continuing an attest engagement](#) in the *Journal of Accountancy*
- [2021 Plain English Guide to Independence](#)
- Q & A related to applying the affiliate definition and client affiliates interpretation to individuals ([FAQs: General ethics](#))

Projects in need of volunteers

The division plans to begin the following projects and seeks volunteers to chair and participate on the projects.

Digital assets — Possible standard-setting

The code does not provide any specific independence guidance when members own or mine digital assets such as cryptocurrencies. For example, if a member of the engagement team holds digital assets either issued or held by the entity subject to attest procedures, there could be threats to compliance with the “Independence Rule” (ET section 1.200).

The task force will conduct fact-finding and determine how the independence guidance should be applied to digital assets and whether this conclusion should be communicated authoritatively or through nonauthoritative means.

Task force work is scheduled to begin in Q2 2022. A chair and task force members are needed. In addition, to assist the task force with its fact-finding, staff welcomes recommendations of individuals who have expertise related to digital assets.

Statements on Standards for Attestation Engagements (SSAE) — Possible standard-setting

This task force will determine whether the modifications to the “Independence Rule” should be applied when the SSAE report is not restricted in use. The task force will also identify what independence interpretations use financial statement factors and determine how that guidance should be applied when the attest engagement is not a financial statement attest engagement. The task force will coordinate with Auditing Standards Board staff regarding the adequacy of the

code's definition of "client" and "attest client" for members who are applying the SSAEs, since the SSAEs do not define "client".

The task force will conduct fact-finding to determine if any revisions or clarifications are needed and whether those conclusions should be communicated authoritatively or through nonauthoritative means.

Task force work is scheduled to begin in Q2 2022. A chair and task force members are needed.

529 college savings plans — Possible standard-setting

In 2005, PEEC issued the "[Section 529 Plans](#)" interpretation. This guidance concludes that a covered member who is an account owner has a direct financial interest in the plan as well as in the underlying investments held by the plan because the account owner elects which sponsors 529 college savings plan to invest in, and prior to making the investment decision, the covered member has access to information about the plan's investment options or funds.

The Strategy & Work Plan consultation paper noted that account owners do not always know the underlying securities when they invest in these plans and sought feedback related to challenges members encounter and whether PEEC should undertake a project to reevaluate the guidance. Most of the commenters support this project due to the difficult nature of monitoring the underlying investments of these plans.

The task force will conduct fact-finding to understand the monitoring challenges. If there's a determination that concerns should be addressed, the task force will consider whether to do so with a standard-setting or member enrichment project.

Task force work is scheduled to begin in Q2 2022. A chair and task force members are needed.

Business relationships — Possible standard-setting

Business relationships have changed since the "[Cooperative Arrangements With Attest Clients](#)" interpretation was adopted in 1993. In addition, firms are engaging in business relationships with nonattest clients (for example, finance and accounting outsourcing) that may create threats to compliance with the "Integrity and Objectivity Rule" (1.100.001).

The Strategy & Work Plan consultation paper sought feedback on what business relationships firms have with either nonattest or attest clients and whether the code should be updated to better reflect the types of business relationships in which members are currently involved. Most of the commenters support this project and encourage PEEC to consider consistency with the U.S. SEC when developing the guidance.

The task force will conduct fact-finding to determine the types of business relationships members have with attest clients, the nature of those relationships and whether standard-setting efforts should be undertaken to add additional safeguards to protect independence,

integrity, and objectivity.

Task force work is scheduled to begin in Q3 2022. A chair and task force members are needed.

Artificial intelligence — Member enrichment

Artificial intelligence (AI) is technology that performs decision-based tasks previously performed by humans. AI presents a huge opportunity for CPAs, but reliance on new technology could create threats to compliance with the code. The code does not provide any guidance specific to independence threats or other ethics issues when members use artificial intelligence to provide professional services.

The Strategy & Work Plan consultation paper sought feedback on whether PEEC should undertake a project to understand ethical issues unique to the use of AI while providing professional services and whether guidance should be developed to address those unique challenges.

Most of the commenters support the project and provide examples of threats related to reliance on artificial intelligence (for example, uninformed reliance on AI could threaten a member's objectivity). Some commenters believe it may be premature to develop authoritative guidance to address any ethics implications. Some believe that the Auditing Standards Board should address the matter before PEEC undertakes a project.

The task force will assist in developing member enrichment materials to create awareness of the various threats related to the use of AI.

Task force work is scheduled to begin in Q3 2022. A chair and task force members are needed.

Conflicts of interest — Member enrichment

The "[Conflicts of Interest](#)" subtopic (ET section 1.110) indicates that a member should use professional judgement to determine whether a professional service, relationship or matter would result in a conflict of interest.

The Strategy & Work Plan consultation paper indicated that there is an increased number of hotline inquiries regarding conflicts of interest and sought feedback on what additional guidance would be helpful to assist members with better understanding and applying the conflicts of interest interpretations. Most of the commenters indicate that they believe there is enough existing guidance, but they support the project due to the increased number of inquiries.

The task force will determine how to raise awareness of conflicts of interest and assist in developing member enrichment materials from an analysis of inquiries.

Task force work is scheduled to begin in Q2 2022. A chair and task force members are needed.

NOCLAR – Member enrichment

The task force will assist in developing member enrichment materials to help members with implementing and applying the new standard.

Task force work is scheduled to begin in Q2 2022. A chair and task force members are needed.

Action needed

To volunteer for any of these projects, please complete the [project volunteer survey](#) by February 18, 2022 with the names of the projects you would like to be involved with and whether you would be willing to chair the project or prefer to be a task force member.

ESG

An opportunity for the accounting profession

February 2022

ESG – What are we talking about?

Environmental

- Energy
- Water
- Waste
- Climate/GHG
- Biodiversity/Nature

Social

- Health & Safety
- Diversity, Equity, Inclusion
- Talent
- Brand/Reputation
- Privacy/Cybersecurity

Governance

- Ethics/Conduct
- Anti-Corruption
- Executive Compensation
- Board Composition
- Risk Management

A Fundamental Reshaping of Finance

BlackRock

Climate change has become a defining factor in companies' long-term prospects.

Climate risk is investment risk

In the near future – and sooner than most anticipate – there will be a significant reallocation of capital.

This year, we are asking the companies that we invest in on behalf of our clients to:

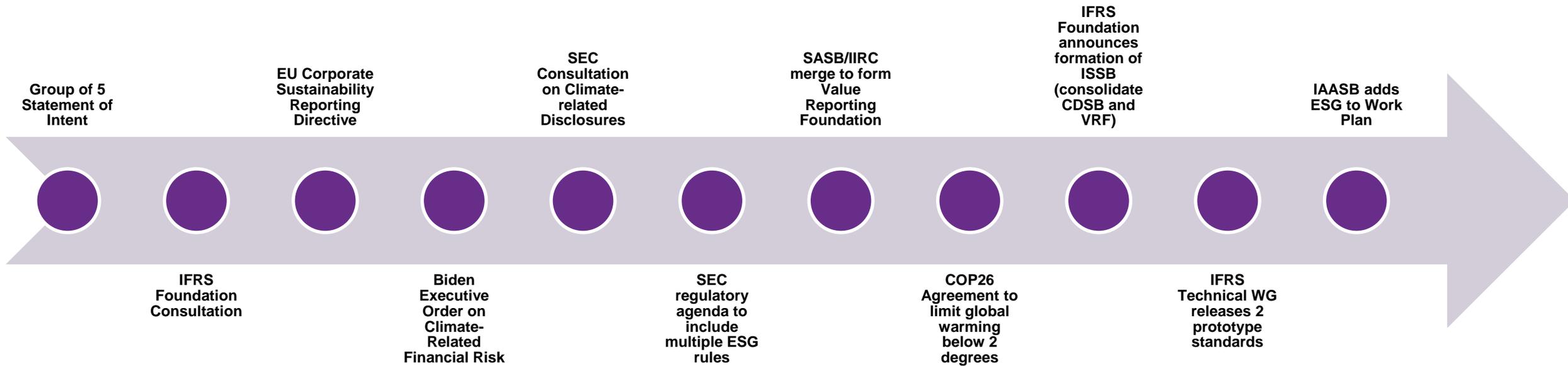
- (1) Publish a disclosure in line with industry-specific **SASB guidelines**
- (2) Disclose climate-related risks in line with the **TCFD's recommendations**

Jan 14, 2020



*ESG Reporting:
A complex and
confusing space
with a growing
list of
stakeholders*

2021...a year for ESG Reporting!



Group of Five – Statement of Intent

- Frameworks and standards that “ensure **high quality, assurable information** create a foundation for reporting that supports more efficient markets and more informed decision-making.”
- Goal is to create a “**similar mindset**” around sustainability information that has evolved for **financial information**.
- Recommended standard setting process acknowledges the **distinct materiality considerations of different stakeholders** and corresponding different reporting objectives.
- Statement proposes a “**stepping-stone**” or “**building block**” approach.



Value Reporting Foundation

One global organization with a unified strategy and three principal products or offerings:

- Integrated Thinking Principles
- International <IR> Framework
- SASB Standards



IFRS Foundation - International Sustainability Standards Board (ISSB)



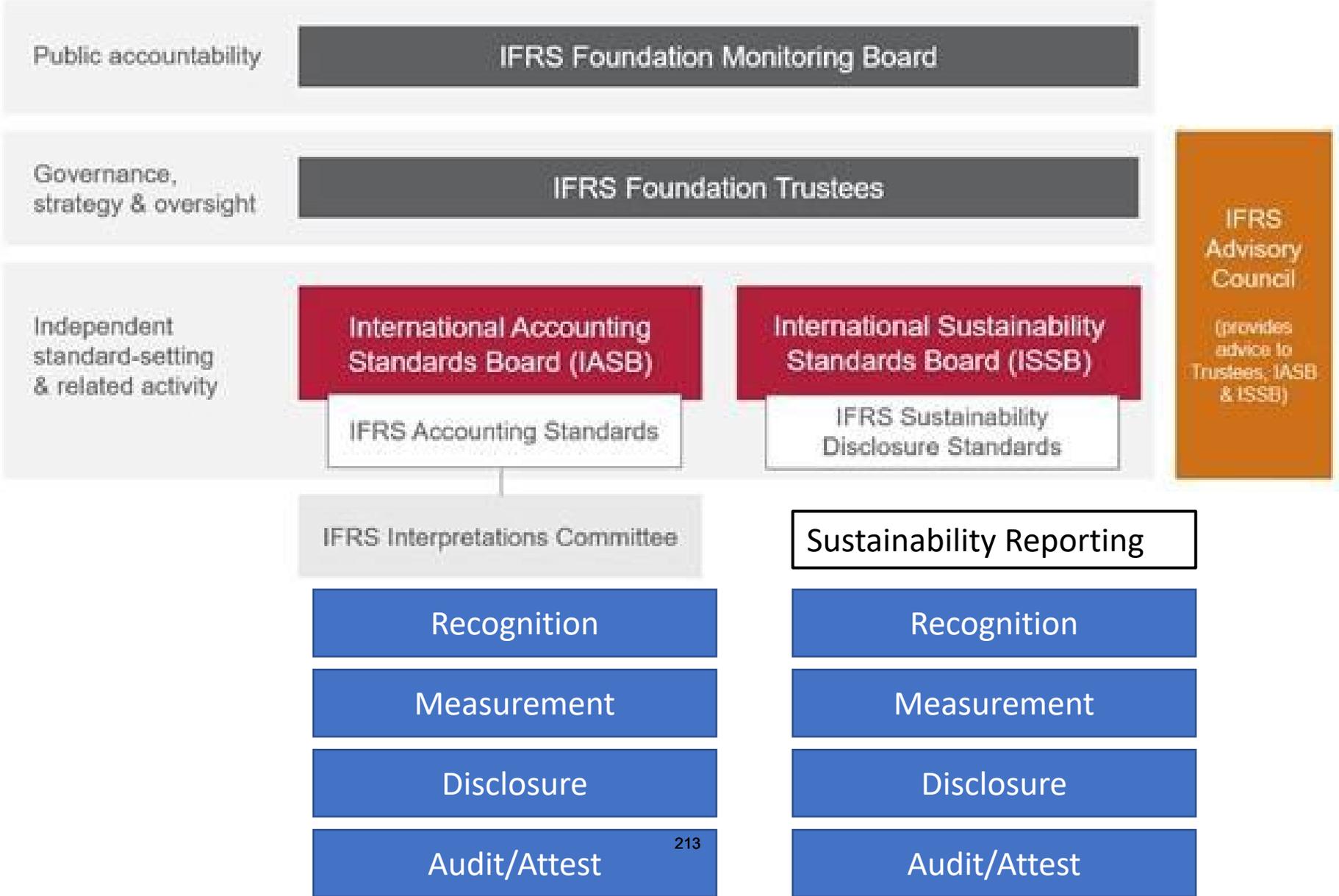
Initial IFRS Consultation

September 2020

Announcement

November 2021

A defining issue for the profession



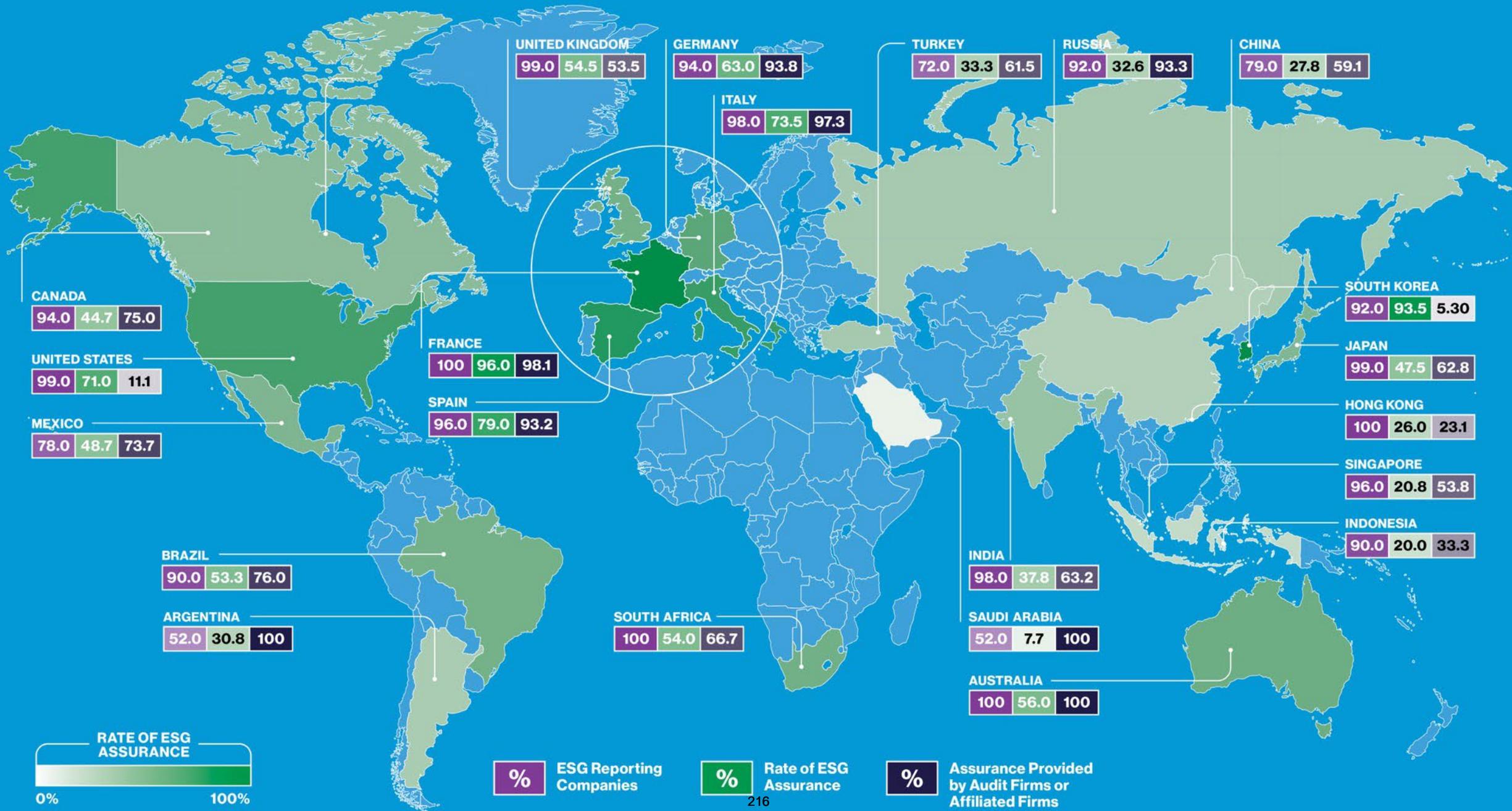
SEC developments related to ESG

- Request for Comment on Climate Disclosure
- SEC Regulatory Agenda (released 6/11/21), disclosures on:
 - Climate change
 - Human capital management
 - Corporate board diversity
 - Cybersecurity risk governance
- Timing for rule proposals
- Sample Letter to Companies Regarding Climate Change Disclosures

BENCHMARKING
GLOBAL PRACTICE

INTERNATIONAL SUSTAINABILITY REPORTING





ESG Resources Available on aicpa.org

guidance, thought leadership, reports, insights

AICPA & CIMA

Sustainability and business

The call to action: build back better

AICPA & CIMA

Sustainability and business – Environmental Protection Introduction: Putting the E in ESG

April 2021

AICPA

Guide

Attestation Agreements on Sustainability Information (Including Greenhouse Gas Emissions Information)

June 1, 2017



Consideration of ESG-Related Matters in an Audit of Financial Statements

AICPA & CIMA

Sustainability frameworks and standards

Task Force on Climate-related Financial Disclosures (TCFD)

May 2021

BENCHMARKING GLOBAL PRACTICE

THE STATE OF PLAY IN SUSTAINABILITY ASSURANCE

JUNE 2021

IFAC International Federation of Accountants

AICPA & CIMA

Understanding and Communicating Value Creation

The Role of the CFO and Finance Function

217

ESG reporting and attestation: A roadmap for audit practitioners

February 2021

AICPA & CIMA

CAO CENTER FOR AUDIT QUALITY

Worldwide leaders in public and management accounting

CPAs.... *The preferred choice for assurance on ESG information*



protect the public interest



adhere to accountancy laws and professional code of conduct



adhere to continuing professional education ethics and experience requirements



maintain a system of quality control



experience incorporating the necessary specialists



experience in reporting on compliance with various established standards and frameworks

CPAs have:

Experience

Standards

Integrity

Objectivity

Credibility

Professional skepticism

Open meeting minutes — November 16, 2021

Professional Ethics Division Professional Ethics Executive Committee

The Professional Ethics Executive Committee (PEEC or committee) held a duly called meeting on November 16, 2021. The virtual meeting convened at 10 a.m. EST and adjourned at 3:05 p.m. EST.

Agenda materials for this meeting were sent to PEEC members and observers on October 29, 2021 and were posted to aicpa.org.

Contents

Attendance

Key votes in this meeting

Welcome

Noncompliance with laws and regulations

IFAC convergence and monitoring

Simultaneous employment or association with an attest client

Statements on Standards for Tax Services

Member enrichment update

Information system services

Client affiliates

Confidentiality and data security

Compliance audit

IESBA update

Approval of August 2021 meeting minutes

Future meeting dates

Appendix

Attendance

<p><i>Members</i></p> <p>Brian Lynch, Chair Catherine Allen Claire Blanton Thomas Campbell Robert Denham Anna Dourdourekas Anika Heard Jennifer Kary Jefferey Lewis Alan Long William McKeown Randy Milligan James Newhard Stephanie Saunders Katherine Savage Lewis Sharpstone Lisa Snyder Peggy Ullmann Daniel Vuckovich</p> <p><i>Guests</i> See exhibit 1 in the appendix of this document.</p>	<p><i>AICPA Professional Ethics Division staff</i></p> <p>James Brackens, Vice President – Ethics and Practice Quality Toni Lee-Andrews, Director Ellen Gorla, Associate Director Jennifer Clayton, Associate Director Elaine Bagley Sarah Brack Michele Craig Emily Daly Liese Faircloth Jennifer Kappler Iryna Klepcha Kelly Mullins Melissa Powell Karen Puntch Michael Schertzinger Heidi Winn Summer Young Shannon Ziemba</p>
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Key votes in this meeting

Motions approved

- Form a task force to determine the convergence needs for IESBA's January 2021 final pronouncement on the objectivity of engagement quality reviewers
- Form a task force to review the possible conflict between the code and USERRA
- Approve a temporary enforcement policy related to USERRA and parallel state statutes
- Delay the effective date of the ISS interpretation for one year
- Expand the charge of the Client Affiliates Task Force
- Expand the charge of the Compliance Audit Task Force

Welcome

Mr. Lynch welcomed the committee and discussed administrative matters.

Noncompliance with laws and regulations

Mr. Denham updated the committee on task force activities ([agenda item 1A](#)) and presented a summary and analysis of the comment letters with revisions to the guidance based on comments received. The task force sought input on the exposure draft of the NOCLAR proposed interpretations ([agenda items 1B-1D](#)). There will be an updated version presented at the February PEEC meeting.

IFAC convergence and monitoring

Mr. Lynch presented revisions made to the IESBA code ([agenda item 3](#)) addressing the objectivity of the engagement quality reviewer. The working group sought approval to form a standard-setting task force to determine changes needed to converge with IESBA.

Vote

The committee voted unanimously with no abstentions to form a task force to determine the convergence needs for IESBA's January 2021 final pronouncement on the objectivity of engagement quality reviewers.

Simultaneous employment or association with an attest client

Ms. Kappler sought approval to create a task force to address the possible conflict between the code and the Uniformed Services Employment Reemployment Rights Act (USERRA) and to approve a temporary enforcement policy ([agenda items 4A-4B](#)).

Discussion

The committee discussed how many firms the policy could impact, alignment with parallel statutes, changes to wording, and the need for legal counsel to be involved in the drafting process.

Votes

The committee voted unanimously with no abstentions to issue a temporary enforcement policy and to appoint a task force for this purpose.

Statements on Standards for Tax Services

Ms. Saunders updated the committee on task force activities.

Items of note are as follows:

- The task force developed a revised draft of the proposal. The proposed quality management tax standard received the most amount of comments; however, other revisions were made.
- Information on the revisions was shared at the National Tax Conference and with the tax practice responsibilities committee. This committee is meeting in December and will provide more comments at their next quarterly meeting.
- The updated draft will be presented to the AICPA Tax Executive Committee at their meeting on November 17th. After this, it will be presented to AICPA legal counsel for feedback and then the state legislative and regulatory team for input.
- It will also be presented at an upcoming NASBA board meeting.
- There should be further updates at the February 2022 PEEC meeting.

Member enrichment update

Ms. Gorla updated the committee on the status of projects.

Items of note include the following:

- Standard setting
 - Records requests and augmented staff projects were completed in 2021
 - Continuing projects include NOCLAR, Compliance audit affiliates, Unpaid fees, Assisting clients with implementing accounting standards, Client affiliates, and SEC convergence
 - Upcoming projects include International convergence: Fees, International convergence: EQR, 529 college savings plans, Simultaneous employment or association with attest client, Business relationships, and Pooled Employee Benefit Plans
 - Delayed projects include Statement on standards for attestation engagements (SSAEs) and Digital assets
- Member enrichment
 - Completed projects include Inducements, Hosting services, Definition of office, and New services
 - Projects in process include ISS practice aid, Back to basics podcast series, CGMA code updates, SSTs, Operational enhancements to the code, Protecting client confidentiality and data security, International convergence role and

- mindset, SOC 2 Engagements, Single audit content squad, Plain English Guide to Independence, GAO independence comparison, EAQ Area of Focus: Client Acceptance, NY Regulatory Basis of Accounting, and New website platform
- DOL reporting standards project has been delayed to align with the DOL delayed effective date
 - Upcoming projects include: Artificial intelligence, Conflicts of interest, Gig employment, IESBA Comparison. NOCLAR, Hotline reports for the new system, Ethics decision tree for members in business, Nonattest services toolkit, and Reporting an independence breach to an affiliate that is also an attest client
 - There were 13 podcasts in 2021
 - Peek into PEEC included subject matter experts for rebroadcasted webcasts
 - PPP Content was developed based on hotline inquiries
 - Numerous presentations were given such as those at ENGAGE and other Accounting and Auditing conferences

Information system services

Ms. Dourdourekas sought input from the committee on whether the effective date of the interpretation ([agenda item 2](#)) should be delayed.

Items of note include the following:

- Some firms communicated with the task force concerns regarding the revised interpretation. The task force believes the conclusions reached in the interpretation are appropriate, however, if the interpretation goes into effect as planned, it may result in noncompliance.
- Due to the task force's concerns with potential noncompliance, they sent out surveys to firms to find out if they provided managed IT services. There are concerns that the verbiage "managed IT services" is new and can be unclear. There were 29 responses. 45% of firms indicated they do not provide IT managed services to attest clients. 24% said they would provide these services if they were permitted to. 31% of respondents indicated they do not provide these services and do not believe the services should be permitted.
- Clarification is needed on when system network maintenance, support monitoring services, etc. results in a management responsibility.
- During the one-year delay, the task force plans to hold educational roundtable discussions on these and other aspects in spring of 2022. Results are projected to be presented at the August 2022 meeting.

Vote

The committee voted 10 to 8, with 1 abstention in favor of delaying the effective date of the ISS interpretation for one year, that is January 1, 2023, with early implementation allowed.

Client affiliates

Ms. Snyder provided the committee with an update on the activities of the affiliates task force and sought input on the Q & A – Application of client affiliate rules to individuals ([agenda items 5A–5B](#)).

Items of note include the following:

- The Q & A is an example of an individual who has a controlling interest in a financial statement for an attest client whereby they provide services for the individual and the services do not impair independence.
- The task force struggled to come up with examples of where services for an attest client would result in independence impairment.
- Feedback included wording changes for clarification.

Confidentiality and data security

Mr. Campbell sought approval to expand the task force's charge to include monitoring IESBA's proposals and developing recommendations on how to revise the code.

Vote

The committee voted unanimously with no abstentions to approve the expansion of the task force's charge.

Compliance audit

Ms. Miller and Ms. Powell provided the committee with an update on the task force's activities and sought approval to expand the task force's charge to include the following:

- Consider revisions to existing independence standards with respect to compliance audits
- Consider revisions to the definition of financial statement attest client to exclude compliance audits
- Consider a revision to the client affiliates interpretations (1.224.010 and 1.224.020) to exclude compliance audits

In addition, Ms. Miller noted that the task force plans to develop practice aids to communicate and clarify the requirements under existing standards and will perform outreach to educate members on current standards and to obtain feedback about current practices and challenges.

Ms. Kappler presented the following items of note:

- The number of single audits performed is expected to increase and there is likely to be a corresponding increase in scope for practitioners. The single audit content squad was created to address these needs.

- Over the last six months the squad has raised awareness by presenting to state societies, hosting a webcast for peer reviewers, and publishing articles in the *Journal of Accountancy* and on the AICPA blog.

Vote

The committee voted unanimously with no abstentions to approve the expansion of the task force's charge.

IESBA update

Mr. Mintzer and Ms. Gorla updated the committee on IESBA's September 2021 meeting ([agenda items 6A–6F](#)).

Items of note include the following:

- IESBA will seek adoption of the public interest entity (PIE) standard. The main differences from what was exposed is moving the pensions and collective investment vehicle categories out of the PIE definition and into a paragraph that requires bodies required for setting ethics standards consider adding categories.
- The IESBA tax planning working group is a task force that will be working to develop revisions to the code and supporting nonauthoritative guidance. While the plan is not to incorporate tax morality into the code, the task force will discuss the concept to consider whether there is any information that might help determine what is acceptable or unacceptable tax planning.
- The IESBA engagement team task force will seek approval in December to expose its proposals that will address, among other things, the independence and breach requirements for component auditors that are outside of the group audit firms network.
- The final report comparing the SEC rules to the IESBA's independence standards that are applicable to PIEs will be provided in December.
- The technology project exposure is slated to be approved in December.

Approval of August 2021 meeting minutes

The committee voted unanimously with two abstentions to approve the August meeting minutes ([agenda item 7](#)).

Future meeting dates

The next PEEC open meeting will take place February 16, 2022.

Appendix

Guests in attendance at the November 2021 meeting

	Name	Company
1.	Teresa Bordeaux	AICPA, Senior Manager — Governmental Auditing & Accounting
2.	Michael Glynn	AICPA, Senior Manager — Audit & Attest Standards
3.	Henry Grzes	AICPA, Lead Manager — Tax Practice and Ethics
4.	Justin Long	AICPA, Manager — Peer Review
5.	Kent Absec	Idaho State Board of Accountancy
6.	Josh Angel	JamisonMoneyFarmer PC
7.	Sonia Araujo	PwC
8.	Arthur Auerbach	Arthur Auerbach, CPA
9.	Coalter Baker	NASBA Board of Directors
10.	Lisa Brown	Ohio Society of CPAs
11.	Tammie Brown	U.S. Department of Health and Human Services
12.	Sam Burke	PwC
13.	Crista Burson	Executive Director — Alaska Society of CPAs
14.	Stephanie Cavadeas	Wipfli LLP
15.	David Kirklan Cloniger	RSM US LLP
16.	Allan Cohen	RSM US LLP
17.	Karen Cookson	U.S. Department of Housing and Urban Development
18.	Melissa Critcher	Enforcement Subcommittee

19.	Debbie Cutler	Debra A. Cutler CPA PC
20.	James Dalkin	U.S. Government Accountability Office
21.	Michael Delaney	Connecticut Auditors of Public Accounts
22.	Arthur Dellinger	Kallman + Logan & Company, LLP
23.	Daniel Dustin	NASBA
24.	Jason Evans	BDO
25.	Jeremy Farrah	Runyon Kersteen Ouellette
26.	Kristin Fee	WithumSmith+Brown PC
27.	Greg Fiedler	Sikich LLP
28.	Mira Finé	Ethics Chair — Colorado Society of CPAs
29.	R. Peter Fontaine	NewGate Law LLC
30.	Jessica Fracassi	EY
31.	Andrew Gripp	Crowe LLP
32.	Mary Beth Halpern	Maryland Association of CPAs
33.	Pamela Ives Hill	Ethics Chair — Missouri Society of CPAs
34.	Kelly Hnatt	External Counsel
35.	Nigel James	U.S. Securities and Exchange Commission
36.	Vassilios Karapanos	U.S. Securities and Exchange Commission
37.	Peggy Kitzmiller	Aldrich CPAs + Advisors LLP
38.	Elizabeth Knipscheer	Ethics Chair — Arkansas Society of CPAs
39.	Kimberly Kuhl	KPMG

40.	Joel Lake	JamisonMoneyFarmer PC
41.	John Lauseng	Aldrich CPAs + Advisors LLP
42.	Nathan Lee	Richey May & Co., LLP
43.	Kam Leung	IESBA
44.	Lynette Lindner	Connecticut Society of CPAs
45.	Stacey Lockwood	Society of Louisiana CPAs
46.	Joe Marchbein	Rice Sullivan, LLC
47.	Elizabeth McKneely	Deloitte
48.	Brandon Mercer	Deloitte
49.	Nancy Miller	KPMG
50.	Andrew Mintzer	Hemming Morse, LLP
51.	Angela Miratsky	BKD, LLP
52.	Jayme Moerdyke	Plante Moran PLLC
53.	Karen Moncrieff	EY
54.	Christina Moser	Plante Moran PLLC
55.	Jan Neal	Deloitte
56.	Jen Noble	RSM US LLP
57.	Donna Oklok	Accountancy Board of Ohio
58.	Jeff Olejnik	Wipfli LLP
59.	Lynn Osborn	JamisonMoneyFarmer PC
60.	Kurt Pany	Emeritus Professor — Arizona State University

61.	Christine Piché	CliftonLarsonAllen
62.	Chris Rabin	Sikich LLP
63.	Jacqueline Reardon	Rosen, Sapperstein & Friedlander, LLC
64.	J. Michael Reese	The Hanover Insurance Group
65.	John Robinson	RSM US LLP
66.	Daniel Sanders	Dixon Hughes Goodman LLP
67.	Eric Schreiber	415 Group
68.	April Sherman	CliftonLarsonAllen
69.	Annette Stalker	Stalker Forensics
70.	Marc Stepper	Ethics Chair–Washington Society of CPAs
71.	Joseph Tapajna	University of Notre Dame
72.	Rachel Trafford	University of Massachusetts Amherst
73.	Shelly Van Dyne	BDO
74.	Sharron Waugh	Tennessee Board of Accountancy
75.	Jim West	BDO
76.	Paula Young	EisnerAmper LLP
77.	Madiha Zafar	PwC