



## Open meeting minutes — May 9–10, 2023

### Professional Ethics Division

### Professional Ethics Executive Committee

The Professional Ethics Executive Committee (PEEC or committee) held a duly called meeting May 9–10, 2023. Day 1 of the virtual meeting convened at 10 a.m. EST on May 9 and adjourned at 3:07 p.m. Day 2 reconvened at 10 a.m. on May 10 and adjourned at 11:11 a.m.

Agenda materials for this meeting were sent to PEEC members and observers on April 21, 2023.

#### Contents

Attendance

Key vote in this meeting

Interim business

Welcome

IESBA convergence: Public interest entities

Simultaneous employment or association with an attest client

Private equity investment in firms

IESBA strategy and work plan

IESBA update

Engagements subject to Statements on Standards for Attestation Engagements

Project update

IESBA tax planning and related services

Overview of digital assets

Future meeting dates

Appendix

## Attendance

<p>Members</p> <p>Brian Lynch, Chair</p> <p>Catherine Allen</p> <p>Claire Blanton</p> <p>Jack A. Bonner, Jr.</p> <p>Thomas Campbell</p> <p>Robert Denham</p> <p>Anna Dourdourekas</p> <p>Anika Heard</p> <p>Clare Levison</p> <p>G. Alan Long</p> <p>Nancy Miller</p> <p>Randy Milligan</p> <p>Donald Murphy</p> <p>Kenneth Omoruyi</p> <p>Katherine Savage</p> <p>Lisa Snyder</p> <p>Daniel Vuckovich</p> <p>Jimmy Williams</p> <p>Guests</p> <p>See exhibit 1 in the appendix of this document.</p>	<p>AICPA Professional Ethics Division staff</p> <p>James Brackens, Vice President – Ethics &amp; Firm Quality</p> <p>Toni Lee-Andrews, Director</p> <p>Ellen Gorla, Associate Director</p> <p>Jennifer Clayton, Associate Director</p> <p>Elaine Bagley</p> <p>Sarah Brack</p> <p>Emily Daly</p> <p>Liese Faircloth</p> <p>Joan Farris</p> <p>Amy Franklin</p> <p>Jennifer Kappler</p> <p>Kelly Mullins</p> <p>Melissa Powell</p> <p>Karen Puntch</p> <p>Michael Schertzinger</p> <p>John Wiley</p> <p>Summer Young</p>
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## Key vote in this meeting

### Motion approved

Release of proposed changes to the Code of Professional Conduct related to public interest entities with a 3-month exposure period.

## Interim business

Between the February and May meetings, PEEC approved the February minutes by email.

## Welcome

Mr. Lynch welcomed the committee and discussed administrative matters.

## IESBA convergence: Public interest entities

Ms. Snyder presented an overview of the exposure draft with the following updates since the February PEEC meeting ([agenda items 1A–1B](#)):

- Adjustments to categories under the definition of public interest entity (PIE)
  - *Insurance*. This category was further refined to incorporate a \$500M threshold where the NAIC has recognized a heightened risk and imposes additional requirements on the insurer. The inclusion of this threshold covers approximately 45 percent of all insurers and 95 percent of total gross premiums while scoping out small individual insurers.

The possibility of raising the threshold to apply to a group of insurers with premiums greater than \$1B was discussed. However, at that threshold small insurers within those groups could be captured that should not be subject to the more restrictive requirements because of their size.
  - *Investment companies*. This category was further refined to exclude insurance products covered by the insurance category and to exclude entities that are only registered with the SEC but not available to the public, such as REITs.
  - *Benefit plans*. Originally, the proposal captured benefit plans that file Form 11-K because they are subject to SEC issuer independence requirements. However, ultimately, the public interest factor here is related to the plan sponsor, which is already captured under category (a) in the PIE definition. To avoid this redundancy, all benefit plans have been removed from the PIE definition.
  - *General*. The general category was removed from the ED due to uncertainties about possible scope. PEEC will be able to consider future developments and determine whether to rescope the PIE definition if and when necessary.
  - *Entities who take deposits from the public*. The threshold was raised to \$1B in total assets since this is the threshold where the FDIC has recognized a heightened risk and imposes additional requirements on the financial institution. The change in the threshold from \$500 million to \$1billion means a 2 percent decrease in the coverage of the assets captured.

- The rationale for the exclusion of credit unions from category (b) in the PIE definition was revised and a question for commenters was modified to specifically highlight credit unions to determine whether commenters believe they should be included in the PIE definition.
- PEEC discussed whether the compliance requirement belongs within the definition or whether a new interpretation should be added to the code for enforceability purposes. Ultimately, the committee decided that the “Governmental Bodies, Commissions, or Other Regulatory Agencies” interpretation (ET sec. 1.400.500) covers the enforceability issue and the compliance requirement will remain in the definition.

Andrew Prather, Auditing Standards Board (ASB) member and PEEC PIE task force member saluted the important collaboration that is occurring between the ASB and PEEC on this topic. PEEC’s progress will require action by the ASB and the ASB PIE task force will review feedback received during the comment period of PEEC’s ED related to the scope, transparency, and voluntary treatment of entities as a PIE.

#### Vote

PEEC unanimously voted to approve exposure of the proposed changes to the code as presented in agenda item 1B, with revisions related to discussions in the meeting. PEEC also approved a 3-month exposure period from June 15 until September 15, 2023.

#### Simultaneous employment or association with an attest client

Ms. Allen updated the committee as follows on the task force’s activities since the February PEEC meeting ([agenda item 2](#) and [exhibit 2](#) in the appendix of this document):

- At the February meeting, PEEC approved the task force’s direction to explore a covered member approach to potential revisions of the “Simultaneous Employment or Association with an Attest Client” interpretation. Since then, the task force concluded that limiting the prohibition to only covered members would not sufficiently address potential significant threats.
- The task force is exploring a framework whereby a covered member would be prohibited from employment at the attest client, and a partner or professional employee would be prohibited from being employed in a key position. With this approach, members can use the conceptual framework to effectively evaluate other simultaneous employment relationships.
- It is likely that the current exceptions for adjunct faculty and government audit organizations will remain with an added exception for conflicts created by statutory or regulatory requirements, such as the Uniformed Services Employment and Reemployment Rights Act (USERRA).

- With PEEC's approval, the task force will send out a survey to gather stakeholders' and members' input on significant threats created by different simultaneous employment relationships.
- PEEC also approved roundtable discussions for the task force to gather more in-depth background on the participants' concerns. Staff conducted outreach to AICPA expert panels, advisory groups, state society ethics committees, and other parties to encourage participation in the survey and roundtables.

### Private equity investment in firms

Ms. Farris updated the committee on the task force's activities and requested approval of the task force charge ([agenda item 3](#) and [exhibit 3](#) in the appendix of this document).

#### Task force activities

The task force presented PEEC with a comparison of the model in the current "Alternative Practice Structures" interpretation (ET sec. [1.220.020](#)) and a model of a private equity structure incorporating a public accounting firm. The task force

- has discussed whether the current model is viable for the private equity structure.
- is considering relationships within the private equity structure and whether any of those relationships create threats to a covered member's independence. The task force has met with independence leadership at firms who have gone through a private equity transaction and with an attorney who specializes in these transactions.

#### Task force charge

The committee considered and approved the following charge and scopes:

Determine if the increase in private equity investments in public accounting firms creates a need to revise the code or issue nonauthoritative guidance. The task force will evaluate the current provisions in the code including the "Alternative Practice Structures" interpretations (ET sec. [1.220.020](#) and [1.810.050](#)) under the "Independence Rule" and the "Form of Organization Rule," respectively, to determine if they are appropriate and sufficient.

Scope 1: Evaluate the current "Alternative Practice Structure" interpretation under the "Independence Rule" for applicability to private equity structures.

Scope 2: Evaluate the "Alternative Practice Structures" interpretation under the "Form of Organization Rule" for applicability to private equity structures.

Scope 3: Consider what nonauthoritative guidance would assist members in private equity structures to comply with the "Independence Rule" and its related interpretations.

During discussion, the committee noted that the task force may need to broaden the scope of the project to incorporate other potential alternative practice structures.

### [IESBA strategy and work plan](#)

Ms. Lee-Andrews shared preliminary planning committee's observations about the IESBA Strategy and Work Plan, 2024–2027, Consultation paper ([agenda items 4A–4B](#) and [exhibit 4](#) in the appendix of this document):

- The volume is driving the inability to implement the standards and for bodies to converge on a timely basis. There is a need for a period of stability to implement new standards.
- Several projects seem to be moving away from scalable principles-based standards and toward more rules-based standards, so the planning committee will be paying close attention to that as they consider IESBA's proposed new projects.
- Observations about IESBA's proposed new work streams:
  - *Role of CFOs and other senior PAIBs.* There is a lack of clarity of what the project entails. Considering recent enhancements to the IESBA code such as the Role and Mindset and Technology projects, and the NOCLAR standard as well as the need for a stability period, if this project is undertaken, the focus should be on developing nonauthoritative material to help CFOs and other senior PAIBS apply the code properly.
  - *Business relationships.* PEEC plans to study this topic in the near term. This is one of the projects where IESBA could be moving away from principles-based guidance and PEEC's comment letter will note this.
  - *Audit firm / audit client relationship.* The planning committee is considering whether the comment letter should recommend IESBA not undertake the project unless the fees post-implementation review indicates it is necessary.
  - *Definitions and descriptions of terms.* The planning committee discussed the definition of "employee." Staff does not recommend defining "employee" to include those that act in a capacity of an employee at a client as doing so would blur the line on permitted non-assurance services. The AICPA eliminated this concept from the AICPA Code of Professional Conduct in May 1999.
  - *Custody of data.* The planning committee discussed whether doing a post-implementation review on the confidentiality components of the Technology project could better inform IESBA where additional guidance might be needed.

The committee will submit their observations of IESBA's SWP to division staff, who will submit

PEEC's comment letter to IESBA.

### IESBA update

Ms. Powell and Ms. Daly updated the committee on IESBA's sustainability and use of experts projects. Roundtable events took place in March and April of 2023 for both projects and IESBA will give a summary of feedback at its June meeting. IESBA expects to issue exposure drafts for each project in December 2023 ([agenda items 5A–5C](#)).

### Sustainability

This project has two workstreams:

- Workstream 1: Independence in sustainability assurance engagements
- Workstream 2: Ethics in sustainability reporting and assurance

At its March 2023 meeting, IESBA provided feedback on each of the workstreams' preliminary views on certain key definitions and the scope in which revisions would apply.

### Use of experts

This project addresses the following:

- Ethics and independence provisions considerations for the use of an external expert in audit and assurance engagements
- Ethics considerations regarding the involvement of an expert in the preparation and presentation of financial and non-financial information, including sustainability information, and other activities
- Ethics considerations regarding the involvement of an expert in the provisions of other services

The use of experts project is progressing in tandem with the sustainability project, given that the use of experts is anticipated to increase as demand for sustainability information and assurance accelerates.

At its March 2023 meeting, IESBA considered and supported the task force's preliminary thinking on the following:

- A possible ethics framework to guide professional accountants' judgments, decisions, and actions as to the use of experts in their professional activities or services
- A potential approach to addressing considerations relating to the ethical behavior (including independence) expected of experts when their work is used by professional

accountants

### Engagements subject to Statements on Standards for Attestation Engagements

Ms. Powell presented the proposed task force charge and related scopes and provided an update on task force activities to date ([agenda item 6](#)).

#### Task force charge

The committee considered and approved the following charge and scopes:

Consider revision to or nonauthoritative guidance for the “Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” subtopic (ET sec. [1.297](#)).

Scope 1: Consider whether the modified independence requirements in “Agreed-Upon Procedures Engagements Performed in Accordance with SSAEs” interpretation are appropriate when the AUP report is not restricted in use.

Scope 2: Consider whether threats to independence exist when the practitioner assists in developing the criteria for an engagement subject to the SSAEs.

Scope 3: Consider which independence interpretations use financial statement factors and determine what guidance should be provided when the attest engagement is not a financial statement attest engagement.

Scope 4: Consider whether the nonattest services exception described in the “Engagements, Other Than AUPs, Performed in Accordance with SSAEs” interpretation appropriately considers prohibited nonattest services for an engagement subject to the SSAEs.

Scope 5: Consider the adequacy of code’s definition of “client” and “attest client” for members who are applying the SSAEs, as the SSAEs do not define “client” and whether independence with respect to the “responsible party” remains appropriate.

Scope 6: Consider updating the “Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” interpretation for SSAE No. 18 which moved compilations out of the SSAEs.

Scope 7: Consider nonauthoritative guidance for applying independence requirements in a direct engagement.

Scope 8: Monitor IESBA’s Sustainability Project.

Scope 9: Monitor SEC activities.



### Project update

Ms. Goria updated the committee on a number of new projects ([exhibit 5](#) in the appendix of this document):

- Plan to begin the three IESBA convergence projects related to nonassurance services during Summer, 2023. These projects cover the following topics:
  - Tax services. Jimmy Williams, chair.
  - Legal services. Dan Vuckovich, chair.
  - General projects, Andy Bonner, chair.
- Work on the following projects from the AICPA Professional Ethics Division's Strategy and Work Plan for 2021-2023 should begin during Summer, 2023:
  - Reporting on an independent breach. Jennifer Kary, chair.
  - Digital assets. Anna Dourdourekas, chair.
  - Artificial intelligence. Claire Levison, chair.
  - 529 plans. Randy Milligan, chair.
- Business relationships. Initiation pending based on finalization of other projects. Cathy Allen, chair.
- Ongoing staff projects.
  - Division project monitoring database.
  - Compliance audit tool development.
  - Common violations reports.
  - Online ethics library enhancements.
  - Nonattest services toolkit refresh.

### IESBA tax planning and related services

Mr. Wiley presented an update on the working group's progress and sought the committee's input on PEEC's and the Tax Executive Committee's joint comment letter to IESBA ([agenda item 7](#) and [exhibit 6](#) in the appendix of this document):

- History of the IESBA project.
- Proposed new sections of the IESBA code. The ED proposes new sections for professional accountants in public practice and in business and industry.
- Overview of the working group and its considerations while monitoring the project and proposal:
  - The AICPA is already substantially converged with most provisions of the proposal.
  - The working group has concerns about several provisions in the proposal as outlined in exhibit 6. Members of the committee agreed with working group concerns, particularly in regard to the stand-back test.
- The joint comment letter will be submitted to IESBA by the comment deadline of May 18, 2023.

### Overview of digital assets

Ms. Krupica and Ms. Beers presented background information on blockchain and digital assets ([exhibit 7](#) in the appendix of this document):

- Blockchain
  - Layers and aspects of software systems
  - Examples of ledgers including distributed ledgers
  - How a blockchain works and how blocks are cryptographically connected to the previous block
  - How blockchains maintain security
  - Functions of blockchain nodes
  - Methods and risks for auditors when accessing information from a blockchain
- Digital assets
  - Definition
  - Types

### Future meeting dates

The following quarterly PEEC meeting dates are set:

- August 9–10, 2023
- November 8–9, 2023

## Appendix

## Exhibit 1

### Guests in attendance at the May 2023 meeting

	Name	Organization
1.	Ami Beers	AICPA, Senior Director — Assurance & Advisory Innovation
2.	Henry Grzes	AICPA, Lead Manager — Tax Practice and Ethics
3.	Carrie Kostelec	AICPA, Lead Manager — SOC & Related Services
4.	Diana Krupica	AICPA, Senior Manager — Emerging Assurance Technologies — Assurance & Advisory Innovation
5.	Jessica Marino	AICPA, Senior Learning Writer — Writing & Authoring
6.	Brian Wilson	AICPA, Director — Audit & Attest Standards
7.	P. Anthony Allen	Kentucky Society of CPAs
8.	Sonia Araujo	PwC
9.	Arthur Auerbach	Arthur Auerbach, CPA
10.	Paul Balas	Michigan State Board of Accountancy
11.	Rita Barnard	Kansas Society of CPAs
12.	Rosemarie Barnickel	Rosemarie Giovinzazzo-Barnickel, CPA
13.	Andrew Bendyk	Fermi Research Alliance, LLC
14.	Loralee Bennett	U.S. Department of Energy
15.	Mary Beth Walsh	RSM US LLP
16.	Brian Bluhm	Eide Bailly LLP
17.	Myra Boelscher	Deloitte
18.	Sheila Border	Wipfli LLP

	Name	Organization
19.	Tammie Brown	U.S. Department of Health and Human Services
20.	Thomas Burtner	RSM US LLP
21.	D. Boyd Busby	Alabama State Board of Public Accountancy
22.	Yvonne Chanda	PwC
23.	David Chiang	MNP LLP
24.	David Kirklan Cloniger	RSM US LLP
25.	Kathryn Clymer-Knapp	EY
26.	Gwen Combs	U.S. Department of Energy
27.	Karen Cookson	U.S. Department of Housing and Urban Development
28.	Kelly Costanzo	RSM US LLP
29.	Monique Cote	MNP LLP
30.	Michele Craig	BakerTilly US, LLP
31.	Debra Cutler	Debra A. Cutler CPA PC
32.	Arthur (Kip) Dellinger, Jr.	Kallman + Logan & Company, LLP
33.	James Denney	RSM US LLP
34.	Kenny Diaz	RSM US LLP
35.	Sarah Doran	RSM US LLP
36.	Darren Durbin	Idaho Environmental Coalition, LLC
37.	Daniel Dustin	NASBA

	Name	Organization
38.	Chantel Edwards	RSM US LLP
39.	Shimon Einhorn	S Einhorn and Company LLC
40.	Jennifer Elder	Moss Adams LLP
41.	Suzanne Esterlis	RSM US LLP
42.	Jason Evans	BakerTilly US, LLP
43.	Mira Finé	Ethics Chair — Colorado Society of CPAs
44.	Yuto Fukushima	Plante Moran
45.	Alicia Gelinas	Colorado Society of CPAs
46.	Michael Genova	RSM US LLP
47.	Joel Gonzalez	U.S. Department of Energy
48.	Andrew Gripp	Crowe LLP
49.	Michael Hillman	Idaho Environmental Coalition, LLC
50.	Kelly Hnatt	External Counsel
51.	Amanda Hulien	RSM US LLP
52.	Diane Jules	CohnReznick LLP
53.	Vassilios Karapanos	U.S. Securities and Exchange Commission
54.	Faith Kim	KPMG
55.	Linda Kuersten	Fermi Research Alliance, LLC
56.	Kimberly Kuhl	KPMG
57.	Moussa Maiga	U.S. Department of Energy

	Name	Organization
58.	Brandon Mercer	Deloitte
59.	Kim Meyer	Meyer & Associates CPA, LLC
60.	Paul Meyer	Cherry Bekaert LLP
61.	Angela Miratsky	FORVIS, LLP
62.	Karen Moncrieff	EY
63.	Dawn Moore	Savannah River Nuclear Solutions, LLC
64.	Christina Moser	Plante Moran
65.	Samantha Mueller	Twain Financial Partners
66.	Jessica Mytrohovich	Georgia Society of CPAs
67.	Juliette Nardella	RSM US LLP
68.	Jan Neal	Deloitte
69.	David Neill	Savannah River Mission Completion, LLC
70.	Anastasia Netto	EY
71.	James Newhard	James J. Newhard, CPA
72.	Tatsuya Ogaki	Plante Moran
73.	Mariola Oscarson	Fermi Research Alliance, LLC
74.	Kiersten Parks	RSM US LLP
75.	Reena Patel	Moss Adams LLP
76.	Paul Pierson	Illinois CPA Society
77.	Joseph Pooppally	N/A



	Name	Organization
78.	Brian Powers	Honkamp, P. C.
79.	Andrew Prather	Clark Nuber P.S.
80.	Renee Rampulla	Rampulla Advisory Services, LLC
81.	Laura Rice	Armanino LLP
82.	Brandon Rigby	Idaho National Laboratory
83.	LeighAnne Robbins	RSM US LLP
84.	John Robinson	RSM US LLP
85.	Deborah Rood	CNA
86.	Paul Russo	Deloitte
87.	David Sanford	Guam Society of CPAs
88.	Dylan Sanzo	RSM US LLP
89.	Stephanie Sauer-Watts	PwC
90.	Gerard H. Schreiber, Jr.	Schreiber & Schreiber, CPAs
91.	Nate Seacrist	RSM US LLP
92.	April Sherman	CliftonLarsonAllen
93.	Kaylee Shorter	TCWGlobal
94.	Korinne Smillie	Plante Moran
95.	Duke Speed	Tennessee State Board of Accountancy
96.	Matthew Sturza	Michigan Association of CPAs

	Name	Organization
97.	Joseph Tapajna	University of Notre Dame
98.	Deborah Thomas	U.S. Department of Energy
99.	Pierre Torres	EY
100.	Peggy Ullmann	Ullmann & Company
101.	Shelly Van Dyne	BDO
102.	Kenya Watts	The Ohio Automobile Club / AAA Central Ohio
103.	Anissa Winn	Idaho National Laboratory
104.	Ellen Wisbar	CBIZ, Inc.
105.	Madiha Zafar	PwC
106.	Shannon Ziemba	CliftonLarsonAllen
107.	Paul Ziga	Georgia State Board of Accountancy

# Simultaneous employment or association with an attest client

Agenda item 2

May 2023

# Original Covered Member Approach

Covered member

≠

An employee in a key position,  
or in any role where the  
individual takes on management  
responsibilities or performs  
prohibited nonattest services

Other employment relationships = Apply Conceptual Framework

Exceptions: Adjunct faculty, Governmental Org., USERRA and similar

# Potential Revised Framework

Covered member

≠

Employee

Partner or professional employee

≠

An employee in a key position  
[or in any role where the individual  
takes on management responsibilities  
or performs prohibited nonattest  
services]

Other employment relationships = Apply Conceptual Framework

Exceptions: Adjunct faculty, Governmental Org., USERRA and similar

# Outreach

Group	Response
State societies	11 confirmed participants
Advisory groups/committees	Yes – Private Company Practice Section, Regulatory/legislative affairs, (Uniform Accountancy Act committee representative & 3 additional participants), Technical Issues Committee Pending – Audit and attest standards
Expert panels	Yes – Employee benefit plan, Insurance, Healthcare Pending – Not-for-Profit, Investment, and State & Local Government
Quality centers	Yes – Employee benefit plan audit quality center Pending – Governmental audit quality center
Peer review	4 participants: reviewers and oversight members
Firm representatives	4 individual firm representatives
Industry representatives	3 individual industry representatives

Interested in  
participating in a  
roundtable or survey

Jennifer.Kappler@  
aicpa-cima.com

# Questions for PEEC

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Does the committee approve exploration of the framework previously outlined as a foundation for potential revisions to the interpretation?

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Does the committee approve a survey of stakeholders to obtain feedback on potential modifications to the prohibition of certain employment relationships?

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Assuming the answer to the above is yes, would the committee prefer to perform a fatal flaw review of the survey questions via email or defer to the task force's judgment?

---

Does the committee approve the task force's request to conduct roundtable discussions with stakeholders?

---

Assuming the answers to the previous questions are yes, besides the committee members and representatives of the groups identified by outreach efforts, are there any other contacts the committee would like included in the survey and roundtable invitations?



# Thank you

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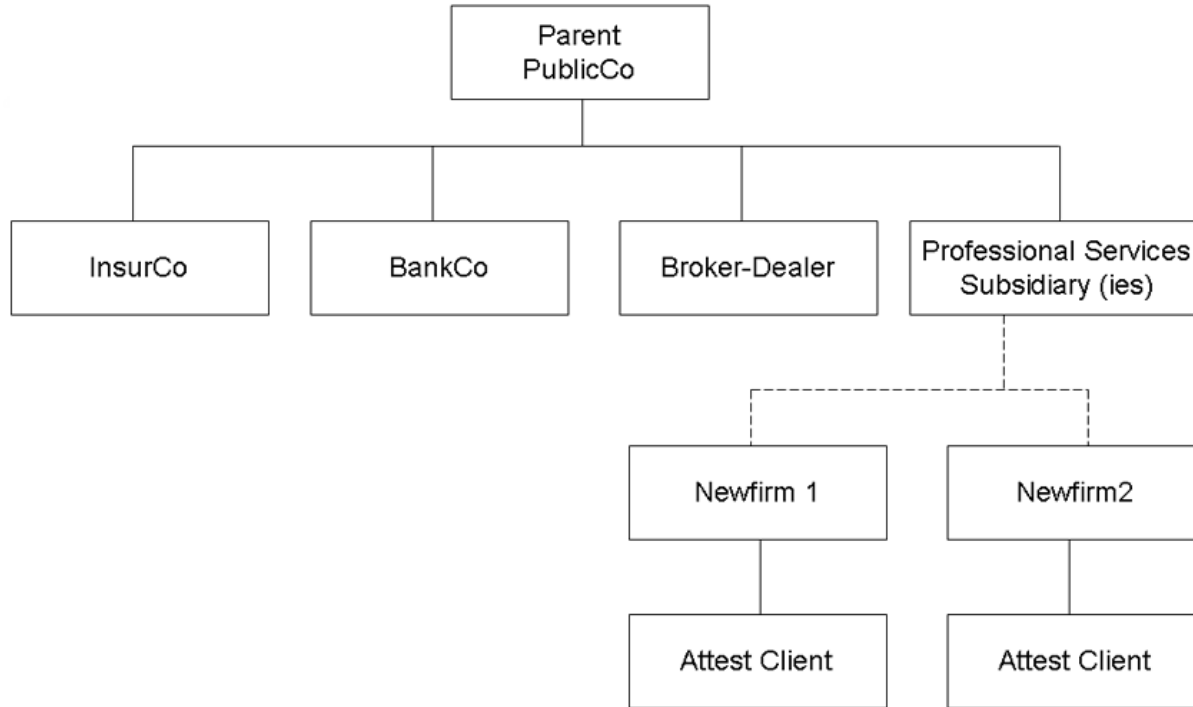


# Private equity investments in firms

PEEC agenda item 3

May 2023

## APS model currently in interpretation

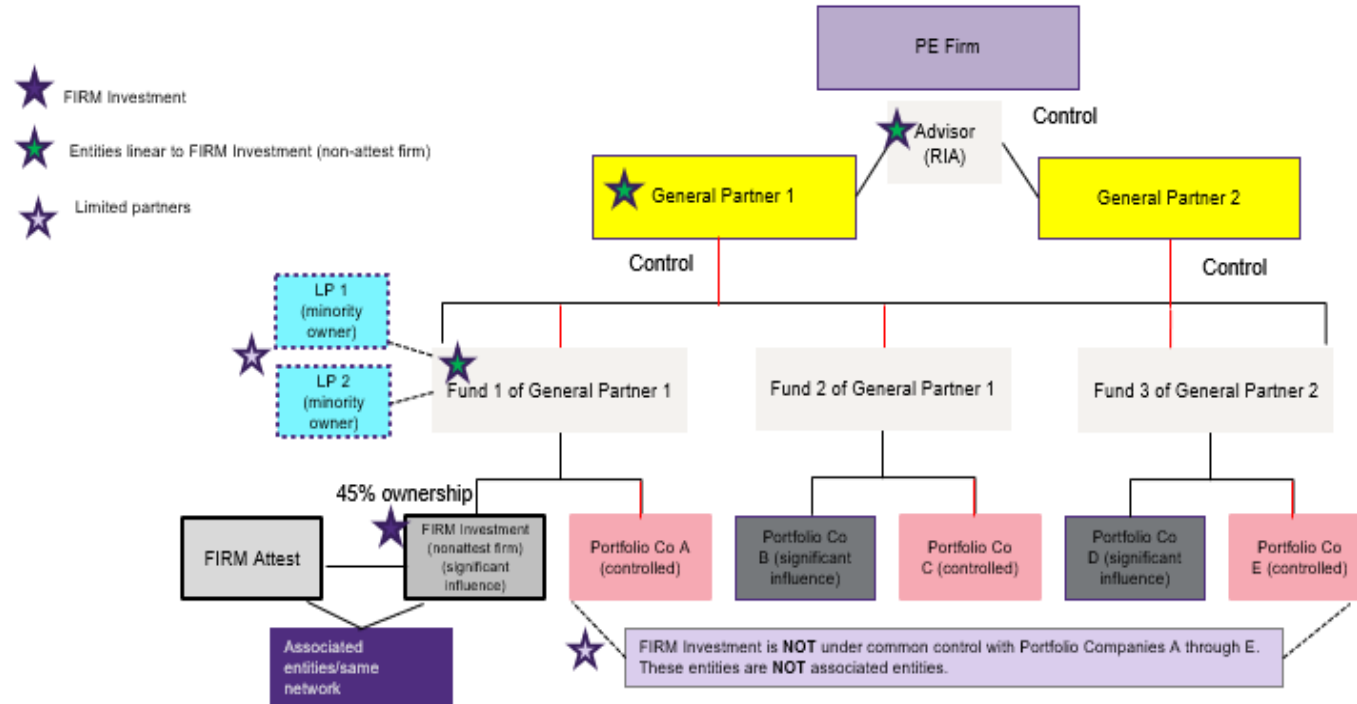


The current model implies common control by the Parent Public Co.

# Examples of challenges

## PE example model

Diagram 1: Overview of a potential APS structure involving PE



- Which portfolio co's must be independent of the attest firm's clients?
- Which investors need to be monitored?
- Which entities can be attest clients of the attest firm?
- Who can be on what board?
- Who has significant influence over the attest firm?
- Which portfolio co's clients can be attest clients of the attest firm?

## Scope 1

Evaluate the current “Alternative Practice Structures” interpretation under the “Independence Rule” for applicability to private equity structures.

- Terminology
- Framework for current and future structures

## Scope 2

Evaluate the “Alternative Practice Structures” interpretation under the “Form of Organization Rule” for applicability to private equity structures.

Consider ownership and governance factors unique to private equity structures.

## Scope 3:

Consider what nonauthoritative guidance would assist members in private equity structures to comply with the “Independence Rule” and its related interpretations.

- Model diagram depicting relationships and scenarios
- Q&A
- Tool for evaluating and monitoring independence

## Proposed task force charge

Determine if the increase in private equity investments in public accounting firms creates a need to revise the code or issue nonauthoritative guidance. The task force will evaluate the current provisions in the code including the “Alternative Practice Structures” interpretations (ET sec. [1.220.020](#) and [1.810.050](#)) under the “Independence Rule” and the “Form of Organization Rule,” respectively, to determine if they are appropriate and sufficient.

1. Does the Committee have any concerns with or comments on the proposed Charge?
2. Are there any other items the committee would like the task force to include in its charge?

# Thank you





# IESBA strategy and work plan

PEEC agenda items 4A-4B

May 2023

## Preliminary Observations

- Volume of projects
- Scalable and principle-based standards
- Profession agnostic standards
- Email observations to [iklepcha@aicpa.org](mailto:iklepcha@aicpa.org)

May 15

## Role of CFOs and Other Senior PAIBs

- Role of CFOs is changing
- Identify and understand the ethics issues and challenges faced by CFOs and other senior PAIBs
- Consider if Parts 1 and 2 of the IESBA code need enhancement



## Business Relationships

- Define “business relationships”
- Gather information on business arrangements between firms and their clients, including technology-related business arrangements
- Consider if materiality and significance should be retained as criteria for exceptions to some business relationships (Section 520) and loans and guarantee arrangements (Section 511)



## Audit Firm – Audit Client Relationship

- Self-interest threat in the audit client payer model
- Consider whether the IESBA code should use the term “audit client” instead of “audited entity” or “entity subject to audit”

## Definitions and Descriptions of Terms

- Align the definitions of terms used in the IESBA code with the corresponding IAASB definitions
- Review of how the following terms are defined
  - Audit team
  - Employee
  - Engagement period
  - Firm
  - Network firm
  - Professional accountant
  - Professional accountant in public practice
  - Professional accountant in business



## Custody of Data

- Investigate the ethics implications of a PA's custody of data belonging to third parties
- Consider establishing a new section in Part 3 of the IESBA code



## Communication With Those Charged With Governance

- NAS and Fees projects enhanced provisions relating to communication with TCWG
- Concepts of transparency and accountability to minimize potential “over-reliance” on experts or consultants





## Question to Committee

- Do you support the IESBA's potential work streams?
- Should the IESBA accelerate or defer any potential work streams?
- Are there other topics the IESBA should consider as potential new workstreams?

# Thank you

# Project update

May 2023

# IESBA Convergence: Nonassurance services

## Tax Services

- Jimmy Williams - Chair
- Staff: John Wiley
- Summer 2023

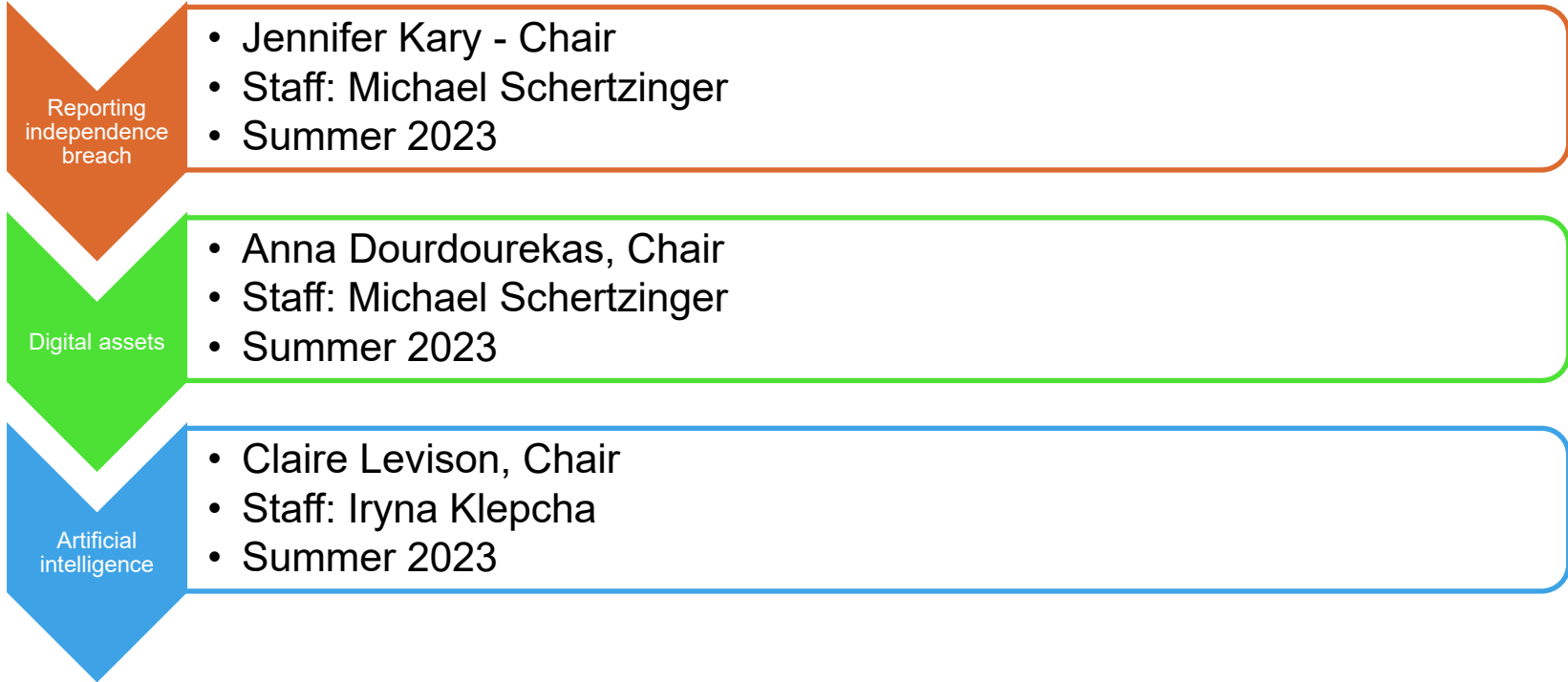
## Legal service

- Dan Vuckovich – Chair
- Staff: Liese Faircloth
- Summer 2023

## General

- Andy Bonner – Chair
- Staff: Amy Franklin and Liese Faircloth
- Summer 2023

# PEEC SWP project



## PEEC SWP project

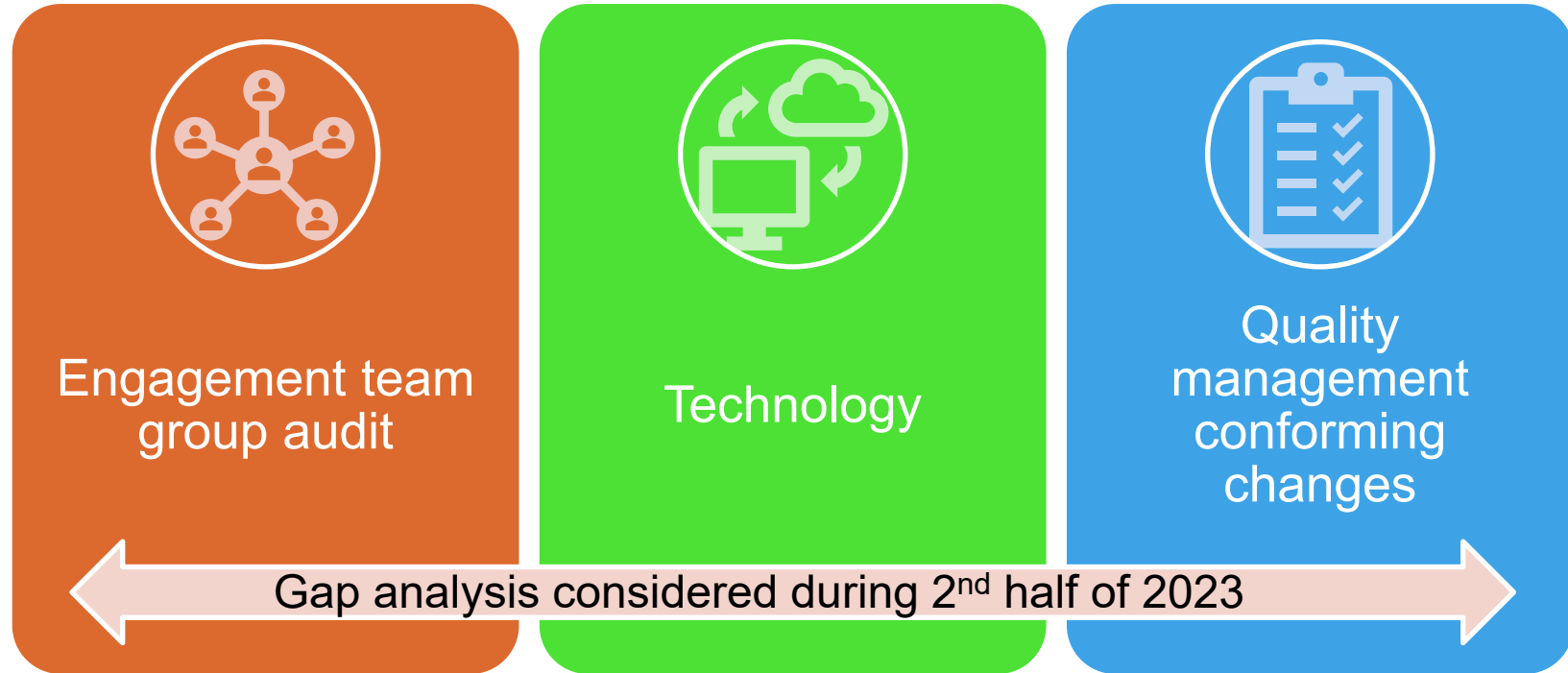
Business  
relationships

- Cathy Allen – Chair
- Fall 2023

529 plans

- Randy Milligan – Chair
- Summer 2023

# IFAC Convergence and Monitoring Task Force



## Staff lead projects

Project monitoring

Compliance audit

Common violations reports

Ethics library

Nonattest services toolkit



# Thank you

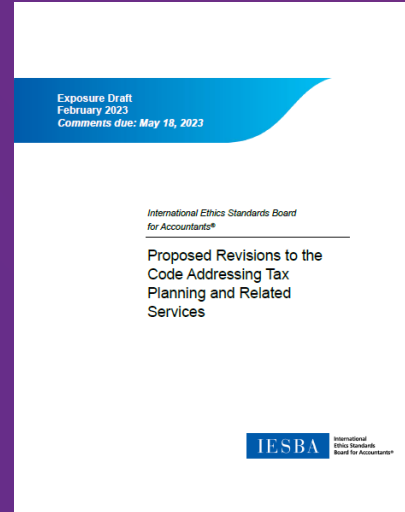
# IESBA Tax Planning and Related Services ED

Joint comment letter update

May 2023

# IESBA Tax Planning and Related Services ED

- IESBA working group formed in September 2019
- Working group issued final report in September 2021
- Task force formed at same time
- April 2022 global virtual roundtables held
- The IESBA unanimously approved the proposal for exposure at its November-December 2022 meeting
- Exposure draft issued February 2023
- Comments due May 18, 2023



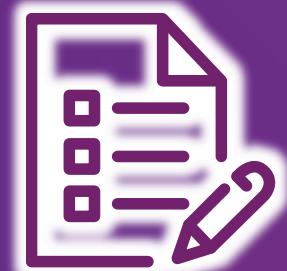
# IESBA Tax Planning and Related Services ED

- AICPA will issue a joint comment letter to IESBA
  - PEEC
  - Tax Executive Committee (TEC)
- Comment Letter Working Group
  - PEEC
  - TEC
  - Tax Practice and Responsibilities Committee
  - Personal Financial Planning section
  - AICPA Professional Ethics and Tax Practice and Ethics staff



## Gap analysis with existing AICPA standards

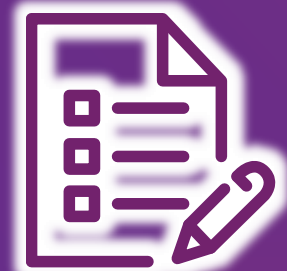
- The ED proposes two new sections to be added to the IESBA code
  - Section 380 for professional accountants (PA) in public practice (PAPP)
  - Section 280 for PAs in industry and business (PAIB)
- Proposal process concentrated on Section 380
- Section 280 essentially same concepts and language, but customized for PAIBs and their employing organizations



## Gap analysis with existing AICPA standards

Staff considered and compared the following existing and proposed standards:

- Proposed Section 380
- Proposed Section 280
- Explanatory memorandum to ED
- AICPA Code of Professional Conduct
- SSTs (proposed revisions)
- SSPFPS



## Gap analysis with existing AICPA standards

Provisions identified in ED that we believe we are already aligned with:

- Compliance with laws and regulations
- Organize affairs for tax planning purposes
- Anti-avoidance laws and regulations
- Tax avoidance versus tax evasion
- Role of the courts or other adjudicative bodies



## Gap analysis with existing AICPA standards

Provisions identified in ED that we believe we are already aligned with:

- Responsibilities of management and those charged with governance
- Responsibilities of all PAs
- Credible basis
- Potential Threats Arising from Providing a Tax Planning Service (conceptual framework)





## Gap analysis with existing AICPA standards

Provisions identified in ED that have significant concerns:

- The required “stand-back test” and the disclosure requirement when the stand-back test fails.
- The provision that a PA referring or advising on a TP product or arrangement of a third-party be held to these same provisions as if they were the creator of the TP product or arrangement.
- Provisions that may infringe upon the legal rights of taxpayers through disclosure requirements or considerations.



## Stand-back test

R380.12 states that

In addition to determining that there is a credible basis for the tax planning arrangement, the professional accountant ***shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.***



## Stand-back test

R380.13 states that

If, having considered the matters set out in paragraph R380.12, the professional accountant decides not to recommend or otherwise advise on a tax planning arrangement that the client would like to pursue, the accountant **shall inform the client of this and explain the basis for the accountant's conclusion.**



## Stand-back test

The working group has expressed the following concerns regarding the stand-back test:

- PAs could incur additional costs that outweigh the benefits, and as a result, drive taxpayers to other providers that are less qualified and not bound by higher ethical standards.
- Considering stakeholder's views on a TP arrangement falls squarely into the discussion of tax morality, tax fairness, and tax justice that was scoped out of this project.
- This provision is redundant as the extant code already requires PAs to comply with the fundamental principles of Integrity, Objectivity, and Professional Competence and Due Care and the reasonable informed third-party test.



## Stand-back test

The working group has expressed the following concerns regarding the stand-back test:

- It could create unintended consequences for financial planning, as PAs that provide financial planning services may be subject to the stand-back test, since tax planning is one of many aspects considered in performing financial planning services.



## Stand-back test

If the stand-back test fails, and the PA does not recommend a TP arrangement, R280.13 requires disclosure of the PA's basis of their conclusion to the client:

- The working group has concerns this required disclosure could compromise or jeopardize rights to which a taxpayer is legally entitled, as CPAs do not have privilege in the U.S., any proposed provisions that could result in disclosure or documentation would be discoverable not only by the tax authorities, but later in litigation, resulting in the legal rights of the taxpayer being compromised.



## Stand-back test

The working group is currently considering the following recommendations regarding the stand-back test:

- Elimination of the required provisions
- Changing the required provisions to application guidance
- Proposal of language to address taxpayer's legal rights
- Requesting exception for jurisdictions that have long standing and proven regulatory and tax practice standards to prevent unnecessary issues with convergence.



## Referrals to third-parties

380.22 A1 states:

There might be circumstances where a professional accountant refers a client to a third-party provider of tax planning products or arrangements, or where a client approaches the accountant for advice on a tax planning product or arrangement developed by a third party. **In both circumstances, the provisions in this section apply.**





## Referrals to third-parties

Circular 230 as well as the SSTs provide long standing guidance regarding the due diligence required when relying on the advice of others.

- Assess if assumptions and representations of the third-party are reasonable
- Consider its source (for example, the knowledge and expertise of the TP provider)
- Consider if the TP arrangement is consistent with other information known to the member.



## Referrals to third-parties

380.22 A2-A3 discuss threats to compliance with the fundamental principles if a PA receives referral fees or commissions, and that in some jurisdictions, PAs are prohibited by law or regulation from receiving referral fees or commissions.

The working group believes the extant IESBA code Section 330 “Fees and Other Types of Remuneration” is applicable to all PAs in public practice when providing any services, so these provisions are not necessary.



## Definition of tax planning services

The members of the working group believe these descriptions could be refined or clarified so that they do not include services where the primary goal is not tax planning but rather where tax planning is an ancillary result.



## Beneficiaries of TP arrangements

Certain provisions regarding identification of threats when applying the conceptual framework and documentation suggest that the PA should determine the identify of the ultimate beneficiaries of a TP arrangement.

Members of the working group think that this task could be too broad in scope and could impose additional costs on the PA, and is considering proposal of changing “ultimate beneficiaries” to “known and expected beneficiaries”



# Disagreements

R380.19 states:

If the professional accountant disagrees that a tax planning arrangement that a client would like to pursue has a credible basis, the accountant shall:

- a) Inform the client of the basis of the accountant's assessment;
- b) Communicate to the client the potential consequences of pursuing the arrangement in the event of an adverse ruling; and
- c) Advise the client not to pursue the arrangement.



# Disagreements

R380.19 states:

If the professional accountant disagrees that a tax planning arrangement that a client would like to pursue has a credible basis, the accountant shall **consider**:

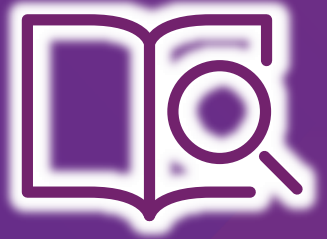
- a) Inform the client of the ~~basis~~ of the accountant's assessment;
- b) Communicate to the client the potential consequences of pursuing the arrangement ~~in the event of an adverse ruling~~; and
- c) Advise the client not to pursue the arrangement.



# Disagreements

R380.20 states

“If the client decides to pursue the tax planning arrangement, despite the professional accountant’s advice to the contrary, the accountant shall take steps to disassociate from the engagement. In doing so, the accountant shall consider advising the client to” take steps listed in the required provision.



# Disagreements

## R380.20 states

“If the client decides to pursue the tax planning arrangement, despite the professional accountant’s advice to the contrary, the accountant ~~shall take steps to disassociate from the engagement. In doing so, the accountant shall consider advising the client to~~ take steps listed in the required provision.

## R380.21 states

In light of the client’s response to the professional accountant’s advice, the accountant shall consider the need to withdraw from the engagement and the professional relationship.





## Effective Date

The working group believes that IESBA should consider a significantly longer delayed effective date than its usual standards. This extended timeframe is considered especially critical for jurisdictions that have no tax practice standards in place.



## Comment letter draft to date – 1<sup>st</sup> drafts



## Comment letter draft to date – Current draft





# Thank you

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# Blockchain and digital assets

Blockchain  
background

# Layers and aspects of software systems

Application layer: user needs

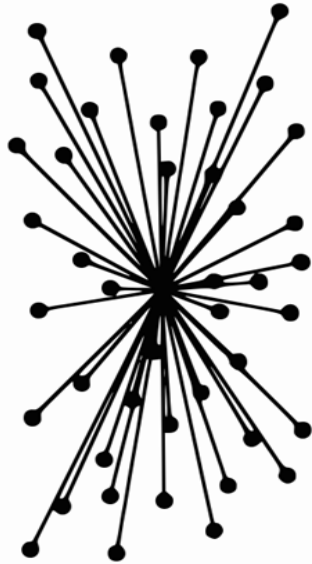
Implementation layer: making things happen

Functional aspects: what is done

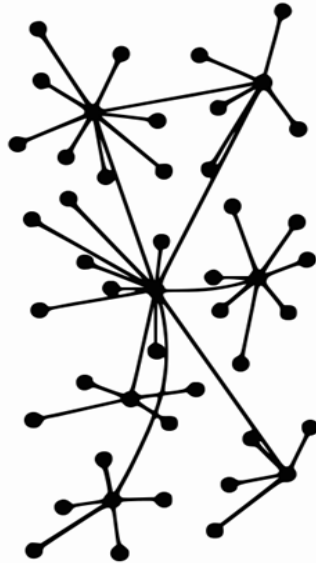
Nonfunctional aspects: how things are done

- Users focus on functional aspect/ application layer (taking picture/making phone call/texting)
- Nonfunctional aspect of implementation layer less visible to users (store data efficiently)
- Integrity important nonfunctional aspect
- Blockchain part of implementation layer and ensures integrity of nonfunctional aspect

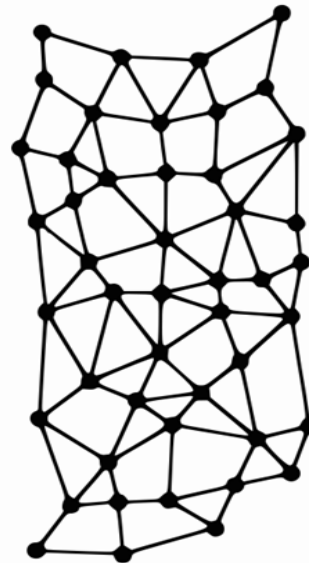
# What is a distributed ledger?



Centralized



Decentralized



Distributed

- Distributed ledger where transactions are recorded and confirmed in trustless manner
- Record of events that is shared and updated in real-time, between all participants (nodes)



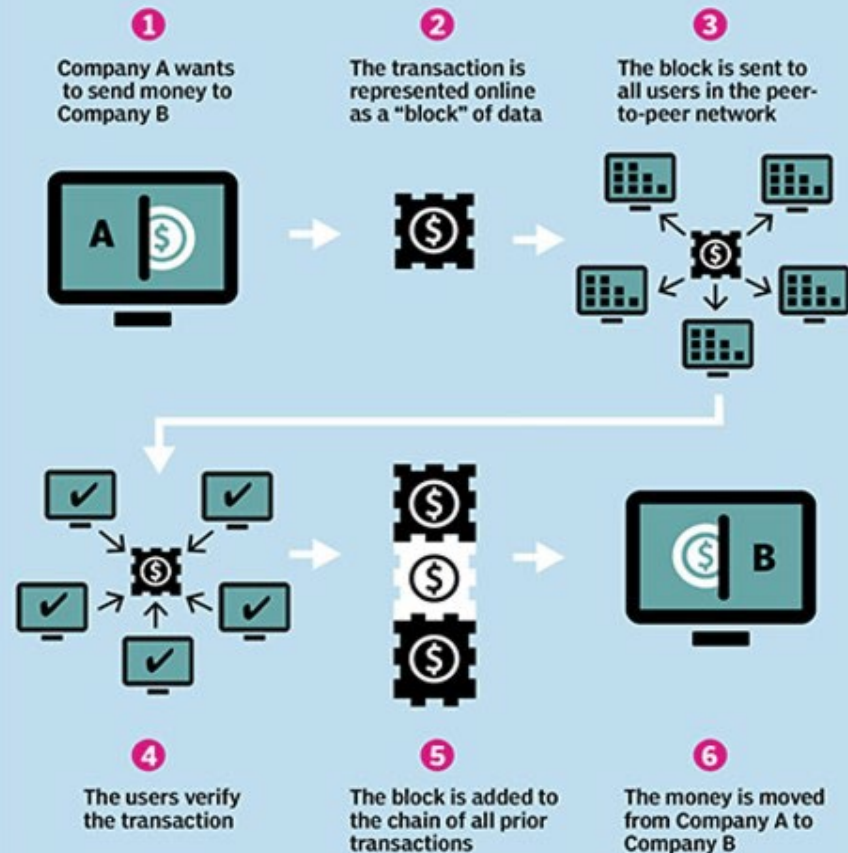
# What is blockchain?

- Blocks are cryptographically connected to the previous block using hashing



## How a Blockchain Works

Sending money using distributed ledger technology creates a highly transparent, immutable record.



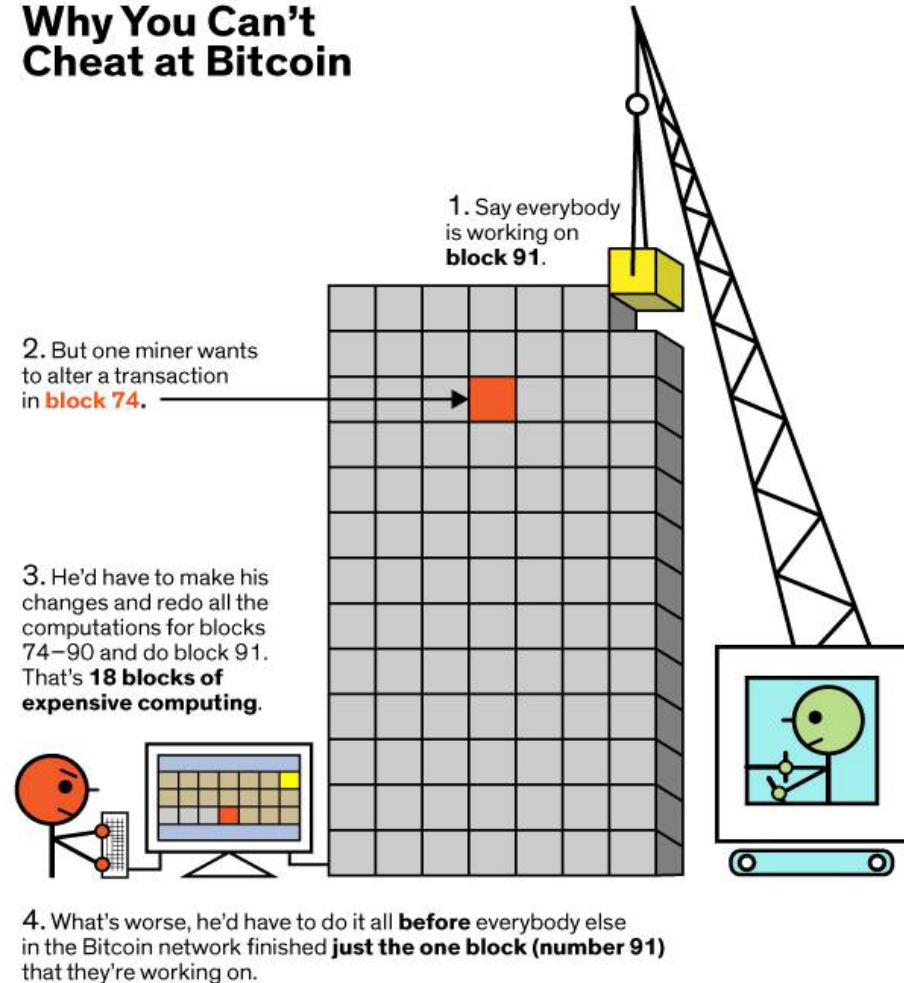
Source: CFO

# How do blockchains maintain security?

## Consensus mechanisms

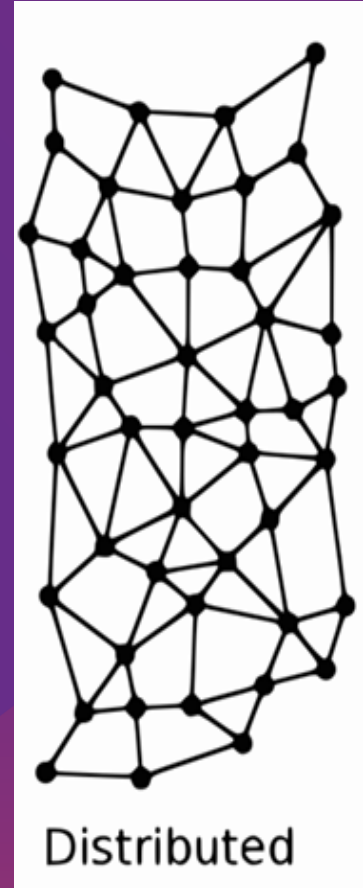
- Many different types
- Dictates the rules transactions must follow to be approved by nodes on the network
- Dictates how transactions flow between nodes and are approved by nodes on the network
- Ensures next block in a blockchain is the single source of truth

## Why You Can't Cheat at Bitcoin



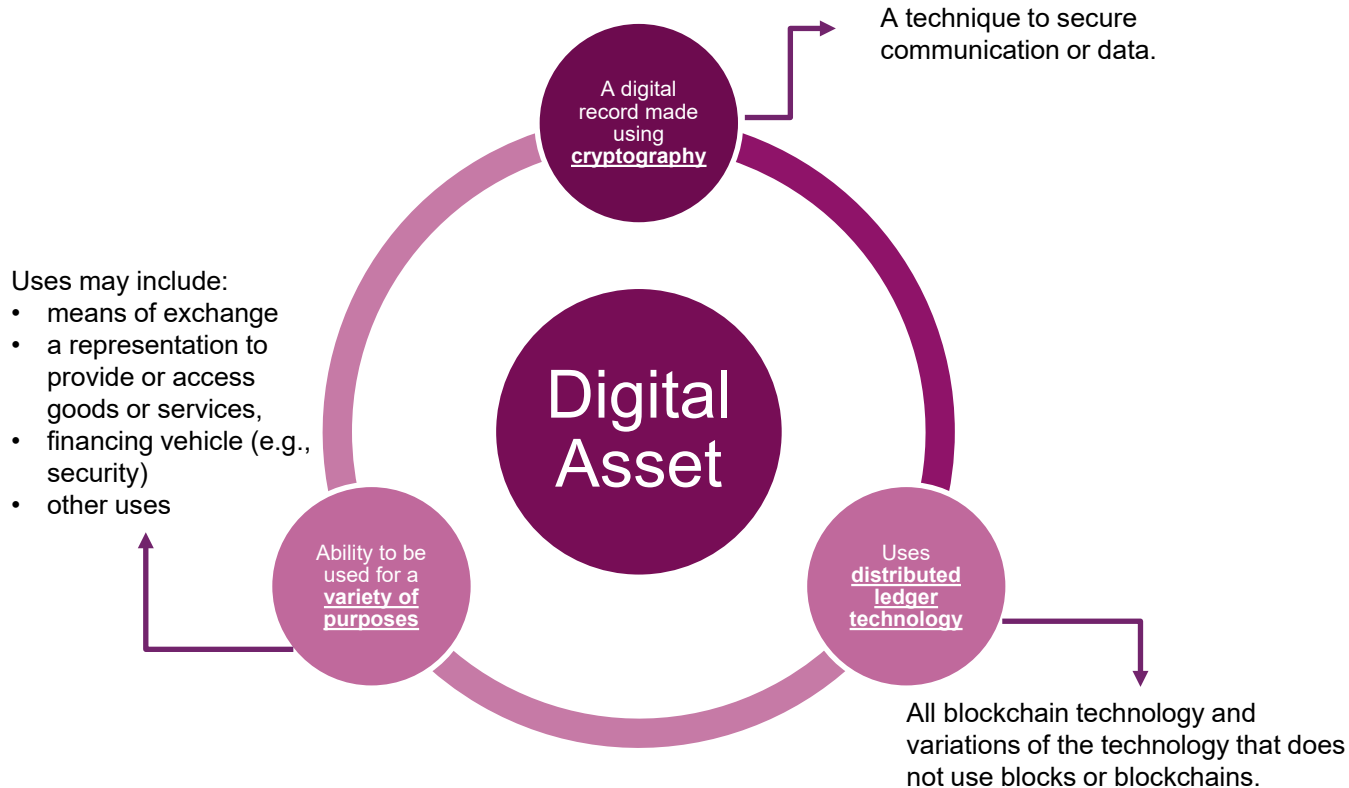
## Functions of blockchain nodes

- Integral part of blockchain ecosystem
  - Share and maintains distributed ledger
  - Data is distributed to all nodes
  - Ensure integrity of data and provide credibility of network
- Various functions of nodes
  - Accepting/rejecting transactions
  - Managing transactions and their validity
  - Storing blocks
  - Acting as point of communication



Digital assets  
background

# What is a digital asset?



## Types of digital assets

- Crypto assets (bitcoin, ether)
- Asset-backed tokens
  - Fiat-pegged (stablecoins)
  - Crypto-pegged
  - Commodity-pegged
- Central-banked digital currencies (CBDCs)
- Non-fungible tokens
- Other tokens (security/utility)

## Uses of Digital Assets

Purchase/Sale

Investment

Trade

- Buying and selling based on current market price

Exchange


- Buying and selling based on an agreed upon price not necessarily the current market price

Auditor accessing  
information from a  
blockchain

# Methods and risk when accessing information from a blockchain

Use free public blockchain explorer

- Information provided based on search parameter inputs
- Risks include not knowing how explorers are configured or if data is complete and accurate



BLOCKCHAIR

info@blockchair.com

https://blockchair.com

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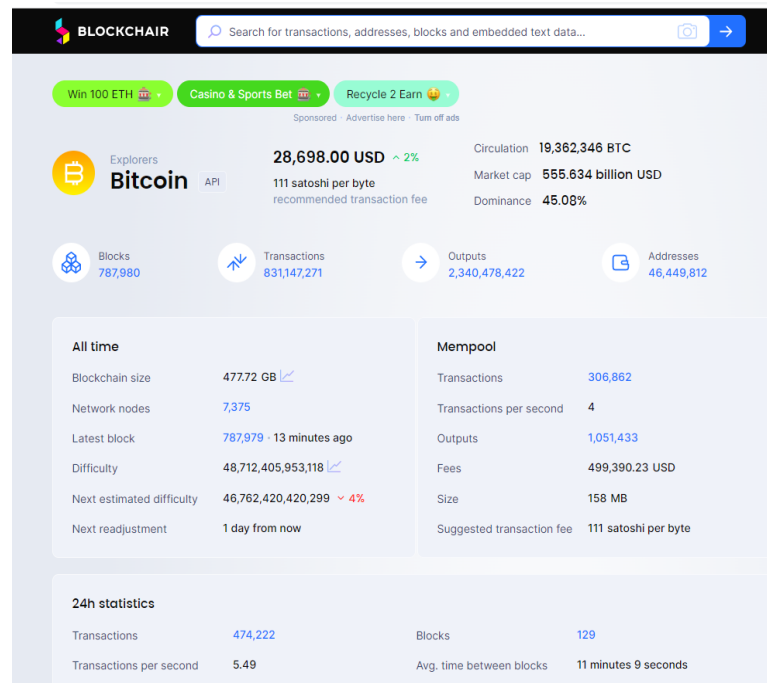
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## Methods and risk when accessing information from a blockchain (continued)

- Outsource to external specialist
  - Third party accesses information for the auditor
  - Risk includes not knowing how node was configured (unless SOC 1 report is obtained)
  - Risk that auditor, through third-party relationship, influences blockchain data
- Auditor operates own node
  - Maintains own copy of blockchain data, configuring an access node to extract data only
  - Risk that auditor executes transactions on the blockchain through the node based on configuration

# Thank you