



Professional Ethics Division

Plain English guide to independence

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Member enrichment

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Preface

Purpose of this guide

The purpose of the AICPA *Plain English guide to independence* is to help you understand independence requirements under the AICPA Code of Professional Conduct (the code) and, if applicable, other rulemaking and standard-setting bodies. Independence generally implies one's ability to act with integrity and exercise objectivity and professional skepticism. The AICPA and other rulemaking bodies have developed rules that establish and interpret independence requirements for the accounting profession. We use the term "rules" broadly to mean rules, standards, interpretations, laws, regulations, opinions, policies or positions. This guide discusses in plain English the independence requirements of the principal rulemaking bodies in the United States so you can understand and apply them with greater confidence and ease. The AICPA rules require a *member* to comply with more restrictive *independence* provisions, if applicable, of certain regulators, such as state boards of accountancy and the SEC, the Government Accountability Office, and the Department of Labor.

This guide is intentionally concise; it does not cover all the rules (some of which are complex), nor does it cover every aspect of the rules. Nonetheless, this guide should help you identify independence issues that may require further consideration. For complete information, you should always refer directly to the rules, in addition to your firm's policies on independence.

Conventions and key terms

This guide uses the following conventions to enhance your reading:

- The word ***Note*** in boldface italics emphasizes important points, highlights applicable government regulations, or indicates that a rule change may soon occur.
- The AICPA interpretations to the code are linked the first time they appear in a chapter.

- Terms that are defined in the code appear in italics. The first time a defined term appears in a chapter, it will also be linked.
- Internet addresses (URLs) and hyperlinks to other sources of information are provided.
- Information on additional resources appears at the end of this guide to help you resolve your independence issues. (See the section "[Where can I find further assistance with my independence questions?](#)" in chapter 11 of this guide.)

We describe the rules of the SEC and the PCAOB — that is, those that apply to audits of SEC registrants, issuers, and broker-dealers — in boxed text (like this one) and provide citations to specific rules. Generally, we provide these descriptions when the SEC and the PCAOB impose either additional requirements or their rules otherwise differ from the AICPA rules.

For purposes of this guide, an **SEC registrant** is an issuer filing an initial public offering, a registrant filing periodic reports under the securities laws, a sponsor or manager of an investment fund, or a foreign private issuer that is (or is in the process of becoming) an SEC registrant. In this guide, *SEC audit client* means an *SEC registrant* and its *affiliates*, as defined in the SEC rules.

For purposes of this guide, an **issuer** is an entity filing an initial public offering, a registrant filing periodic reports under the securities laws, a sponsor or manager of an investment fund, or a foreign private issuer that is (or is in the process of becoming) an SEC registrant. In this guide, *SEC audit client* means an *SEC registrant* and its *affiliates*, as defined in the SEC rules.

For the purposes of this guide, a **broker-dealer** is an entity that is defined in Sections 3(a)(4) and 3(a)(5) of the Exchange Act and is required to file a balance sheet, income statement, or financial statement under Section 17(e) (1)(A) of the Exchange Act and where these statements are required to be certified by a registered public accounting firm.

Note: The auditors of all registered broker-dealers and certain other entities must be registered with the PCAOB and these auditors need to apply the SEC and PCAOB independence rules.

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Chapter 1

Introduction

What is independence?

Independence is defined as follows:

Independence of mind is the state of mind that permits a *member* to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party, who has knowledge of all relevant information, including *safeguards* applied, to reasonably conclude that the integrity, objectivity or professional skepticism of a *firm* or *member* of the *attest engagement team* is compromised.

This definition should not be interpreted as an absolute. For example, the phrase “without being affected by influences that compromise professional judgment” is not intended to convey that the *member* must be free of all influences that might compromise objective judgment. Instead, the *member* should determine whether such influences, if present, create a *threat* that is not at an *acceptable level* that a *member* would not act with integrity and exercise objectivity and professional skepticism in the conduct of a particular engagement or would be perceived as not being able to do so by a reasonable and informed third party with knowledge of all relevant information.

This definition reflects the long-standing professional requirement that *members* who provide services to entities for which *independence* is required be independent both in fact (that is, of mind) and in appearance.

What should I do if no specific guidance exists on my particular independence issue?

According to the “[Application of the Conceptual Framework for Independence and Ethical Conflicts](#)” interpretation (ET sec. 1.200.005) of the “[Independence Rule](#)” (ET sec. 1.200.001), in the absence of an *interpretation* of the “Independence Rule” that addresses a particular relationship or circumstance, a *member* should apply the “[Conceptual Framework for Independence](#)” interpretation (ET sec. 1.210.010).¹ The “Conceptual Framework for Independence” interpretation recognizes that it is impossible for the AICPA Code of Professional Conduct (the code) to identify all circumstances in which the appearance of *independence* might be questioned.

When *threats to independence* are not at an *acceptable level*, the *member* must apply *safeguards* to eliminate the *threats* or reduce them to an *acceptable level*. If *threats to independence* are not at an *acceptable level* and require the application of *safeguards*, the *member* must document the *threats* identified and the *safeguards* applied to eliminate the *threats* or reduce them to an *acceptable level*. Failure to prepare the required documentation would be considered a violation of the “[Compliance With Standards Rule](#)” (ET sec. 1.310.001) rather than the “Independence Rule” if the *member* can demonstrate that *safeguards*, although not documented, were applied that eliminated or reduced significant *threats* to an *acceptable level*.

The “Conceptual Framework for Independence” interpretation provides a valuable tool to help you comply with the “Independence Rule” when a specific circumstance or relationship is not addressed in the code. To assist with implementing the interpretation, the Professional Ethics Division developed a [toolkit](#).

¹ You can find all ET sections in AICPA *Professional Standards*.

When is independence required and who sets the rules?

AICPA professional standards require your *firm*, including the *firm's partners* and professional employees, to be independent in accordance with the "Independence Rule" whenever your *firm* performs an *attest engagement* for an *attest client*.

A compilation is an *attest engagement*. Although performing a compilation of an *attest client's financial statements* does not require *independence*, if a nonindependent *firm* issues a compilation report, the accountant is required to indicate the accountant's lack of *independence* in a final paragraph of the accountant's compilation report, pursuant to paragraph .22 of AR-C section 80, *Compilation Engagements*.²

You and your *firm* are not required to be independent to perform services that are not attest services (for example, *financial statement* preparation, tax preparation or advice, or consulting services, such as personal financial planning) if they are the only services your *firm* provides for a *client*.

Note: You should familiarize yourself with your *firm's independence* policies, quality control systems and list or database of *attest clients*.

In addition to the AICPA, who else sets independence rules?

Many *clients* are subject to oversight and regulation by governmental agencies. For example, the Government Accountability Office sets *independence* rules that apply to entities audited under *Government Auditing Standards* (also referred to as the *Yellow Book*). For these *clients* (and others, such as those subject to regulation by the SEC or Department of Labor), you and your *firm* also must comply with the *independence* rules established by those agencies.

The SEC regulates SEC registrants and issuers and establishes the qualifications of independent auditors. This guide refers to these independence rules as *SEC rules*.

The PCAOB, a private standard-setting body whose activities are overseen by the SEC, is authorized to set, among other things, auditing, attestation, quality control, ethics and *independence* standards for accounting *firms* that audit issuers and broker-dealers. The *PCAOB* adopted interim ethics standards based on the following provisions of the code, as in existence on April 16, 2003, to the extent not superseded or amended by the board:

- *Rule 102, Integrity and Objectivity*
- *Rule 101, Independence*
- *Interpretations and rulings* under Rules 102 and 101

It also adopted Independence Standards Board (ISB) *Independence Standard No. 2, Certain Independence Implications of Audits of Mutual Funds and Related Entities*, and *No. 3, Employment with Audit Clients*, as well as *ISB Interpretation 99-1, Impact on Auditor Independence of Assisting Clients in the Implementation of FAS 133 (Derivatives)*. To the extent that the SEC's rules are more or less restrictive than the PCAOB's interim *independence* standards, registered public accounting *firms* must comply with the more restrictive requirements.

In May 2006, Rule 3520 became effective, which states, "A registered public accounting firm and its associated persons must be independent of the firm's audit client throughout the audit and professional engagement period." The *firm* and its associated persons are still required to comply with both PCAOB and SEC rules.

² You can find all AR-C sections in *AICPA Professional Standards*.

The SEC looks to its general standard of independence and four basic principles to determine whether independence is impaired. The general standard considers whether a reasonable investor with knowledge of all relevant facts and circumstances would conclude that an accountant is independent.

Under the four guiding principles, an auditor cannot function in the role of management, audit the auditor's own work, serve in an advocacy role for the client or have a mutual or conflicting role with the client.

Note: Generally, the AICPA independence rules will apply to you in all situations involving an *attest client*. If an additional set of rules governing an engagement also applies, you should comply with the most restrictive rule or the most restrictive portions of each rule.

Once you determine that your *firm* provides attest services for a *client* and which rules apply, the next step is to determine how the rules apply to you.

Other organizations establish *independence* requirements that may be applicable to you and your *firm*. You should contact the following organizations directly for further information:

- State boards of accountancy
- State CPA societies
- Federal and state agencies (for example, banking and insurance regulators)
- The International Ethics Standards Board for Accountants (IESBA)

Chapter 2

Applying the rules: Attest client and affiliates

Do I need to remain independent from just my attest client or from other entities as well?

Although we think of our *attest clients* as the entities for which we perform *attest engagements*, in some instances, you will need to remain independent from other entities. The AICPA Code of Professional Conduct (the code) requires you to remain independent of *affiliates* of any *financial statement attest client*. A *financial statement attest client* is considered to be any entity whose *financial statements* are audited, reviewed or compiled when the *member's* compilation report does not disclose a lack of *independence*.

If the engaging entity is not also the *attest client*, the *member* needs to determine whether the engaging entity is an *affiliate* that the *member* needs to remain independent of. If the engaging entity does not meet the definition of an *affiliate*, the *member* needs to determine whether there are *threats* to the *member's* compliance with the “*Integrity and Objectivity Rule*” (ET sec. 1.100.001) and the “*Conflicts of Interest for Members in Public Practice*” interpretation (ET sec. 1.110.010) with respect to the engaging entity. If threats exist, then the *member* needs to address the threats in order to comply with this rule and interpretation.

What entities are considered affiliates of my financial statement attest client?

The “*Client Affiliates*” interpretation (ET sec. 1.224.010) of the “*Independence Rule*” (ET sec. 1.200.001) requires that when a *client* is a *financial statement attest client*, *members* should apply the “*Independence Rule*” and related *interpretations* applicable to the *financial statement attest client* to their *affiliates*. This interpretation does not apply to affiliates of state and local government clients. (See “*State and Local Government Affiliates*.”)

The following entities will need to be considered *affiliates* of your *financial statement attest client*:

- a. An entity (for example, subsidiary, partnership or 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 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.

The SEC definition of “affiliate of an audit client” is under SEC Rule 2-01(f)(4) and further expanded on for investment company complexes under Rule 2-01(f)(14). The SEC rules consider entities meeting the definition of an affiliate of an audit client to be part of the audit client.

The SEC considers the following entities to be affiliates of an audit client (for purposes of this list, the term “client” means the “entity under audit”):

- Entities that control the client (for example, parent)
- Entities that the client controls (for example, subsidiary)
- Entities under common control with the client (sister entity) if the client and sister entity are each material to the controlling entity
- Entities that have significant influence over the client and where the client is material to that entity (for example, investor, if the client is material)
- Entities over which the client has significant influence and where the entity is material to the client (for example, material investees)
- Entities in an “investment company complex” (ICC) when the client is an investment company or investment adviser or sponsor

In SEC Rule 2-01(f)(14), the term “investment company complex,” applies when identifying affiliates of an audit client that is an investment company, investment adviser, or sponsor. The definition of “investment company” also includes unregistered funds.

Should I apply the “Client Affiliates” interpretation and the “Affiliates” definition to individuals associated with a financial statement attest client?

The *interpretation* and definition do not apply to individuals. However, if the *member* knows or has reason to believe that an individual has a relationship with the *financial statement attest client* meeting any of the following criteria, threats to the *member’s independence* could be created.

- The individual controls a *financial statement attest client* when the *financial statement attest client* is material to the individual.
- The individual holds a *direct financial interest* in the *financial statement attest client* when that individual has *significant influence* over the *financial statement attest client*, and the interest in the *financial statement attest client* is material to the individual.
- The individual *controls* a *financial statement attest client* and sister entity of the *financial statement attest client* when the *financial statement attest client* and sister entity are each material to the individual.

In such circumstances, the *member* should evaluate those *threats* using the [“Conceptual Framework for Independence.”](#)

If a *member’s firm* has a relationship with an individual that meets any of these criteria and the *member* concludes that *threats* are not at an *acceptable level*, the *member* should apply *safeguards* to eliminate the *threats* or reduce them to an *acceptable level*.

For example, a *firm* provides personal cash management services to an individual who has a material controlling ownership interest in a *financial statement attest client* (*audit client*). The services involve *firm* personnel paying the individual’s personal bills and providing monthly record keeping to the individual. Because *firm* personnel

have access to the individual's personal bank account when providing these services, the audit partner believes the *firm's independence* is *impaired* with respect to the individual and should apply the "[Conceptual Framework for Independence](#)" to evaluate whether the services would create *threats* to the audit *client*.

As part of the evaluation, the audit partner confirms that the checking account is funded by the individual only after approving the monthly record keeping and that only personal bills, not business expenses, run through this account. Accordingly, the partner concludes that the services have no impact on the audit *client's* cash or expense accounts, will not be subject to auditing procedures and, therefore, no significant *threats* to *independence* exist.

What do I do if a financial statement attest client's affiliates can't be identified?

If, after expending your best efforts to obtain the information to identify the *affiliates* of a *financial statement attest client*, you are unable to do so, all the following steps must be taken:

1. Discuss the matter, including the potential effect on *independence*, with [those charged with governance](#).
2. Document the results of the discussion with *those charged with governance*.
3. Document the efforts taken to obtain the information to identify *the affiliates of the financial statement attest client*.
4. Obtain written assurance from the financial statement attest client that it is unable to provide the member with the information necessary to identify its *affiliates*.

What if my financial statement attest client is acquired after I begin the engagement?

Although the "Client Affiliates" interpretation requires *members* to apply the *independence* provisions applicable to their *financial statement attest clients*

to any *affiliates*, PEEC determined that an exception was necessary when a *financial statement attest client* is acquired while you are performing an *attest engagement*.³ The exception would be applicable only if the *attest engagement* covers periods prior to the acquisition and provided you will not continue to perform *financial statement attest services* to the acquirer.

The SEC rule includes transition provisions for mergers and acquisitions involving audit clients, provided that the following apply:

- a. The auditor is in compliance with any independence standards that are applicable to the entities involved in the transaction from the origination of the relationships or services in question and throughout the period in which the applicable independence standards apply.
- b. The potential independence-impairing service or relationship is addressed before the effective date of the merger or acquisition. In discussing this requirement in the related release, the commission noted that when it is not possible to transition an independence-impairing service or relationship in an orderly manner without causing significant disruption to the audit client before the effective date of the merger or acquisition, it is expected to be addressed promptly after the effective date of the merger or acquisition. The release goes on to say that although the commission continues to believe a six-month period is an appropriate limit, it was not included in the final rule so that it would not become standard practice when a shorter time period was appropriate.
- c. The firm's quality control system has procedures and controls that require the firm be timely notified about the audit client's merger and acquisition activity and, upon notification, allows the firm to identify, before the effective date, services or relationships that could result in independence violations.

³ The Professional Ethics Executive Committee (PEEC) is currently studying this issue. An [exposure draft](#) was issued on Oct. 5, 2021.

Are there any other exceptions to the affiliate rules?

PEEC also deemed appropriate that members need not apply the *independence* provisions applicable to their *financial statement attest clients* to any *affiliates* in the following situations:

1. This exception involves *loans* and applies to all *affiliates*. The code currently prohibits a *covered member* from making a loan to, or having a loan from, an individual who is an officer, a director or a 10% or more owner of an *attest client*. If this provision were applied to *affiliates* any time a *member* had a loan to or from an individual, especially one that is only an investor and not in a position of governance, the *member* would need to take steps to ensure that the individual was not in one of these positions at an affiliate. Accordingly, the exception concludes that only when the *covered member* has knowledge that the individual is in such a position with an *affiliate* of a *financial statement attest client*, the *covered member* should be required to consult the “*Conceptual Framework for Independence*” interpretation (ET sec. 1.210.010), because without knowledge, the familiarity, undue influence and financial self-interest threats would be at an *acceptable level*.

Note: Exceptions 2–4 may not be applied by those described as an *affiliate* under (a) or (b) in the earlier list of *affiliates*; rather, they may be applied only to those described as an *affiliate* under (c)–(l) of that list.

2. This exception involves the provision of prohibited nonattest services (that is, nonattest services that would impair a *member’s independence*). Specifically, *members* should not be prohibited from providing these services to entities described as an *affiliate* under (c)–(l) when it is reasonable to conclude that the prohibited nonattest services do not create a self-review threat because the results of the nonattest services will not be subject to *financial statement attest procedures*, and any other threats that are

created by the provision of the nonattest service (for example, management participation threats) that are not at an *acceptable level* are eliminated or reduced to an *acceptable level* by the application of *safeguards*. This exception does not apply to those entities described as an *affiliate* under (a) or (b).

3. This exception involves subsequent employment at an *affiliate*. The code — specifically the “*Subsequent Employment or Association With an Attest Client*” interpretation (ET sec. 1.279.020) — requires the application of specific *safeguards* when a former *partner* or employee becomes employed at an *attest client* in a *key position*. Under the interpretation, if no exception were provided, these *safeguards* would need to be applied when a *former partner* or employee becomes employed or associated with an *affiliate* in a *key position*. It was determined that it is not necessary to apply these *safeguards* to entities described as an *affiliate* under (c)–(l) if the individual’s position does not allow the individual to be in a *key position* with respect to the *financial statement attest client*. Again, this exception does not apply to those entities described as an *affiliate* under (a) or (b).
4. This exception involves *immediate family* members and *close relatives* who are employed at those entities described as an *affiliate* under (c)–(l). *Covered members* need be concerned only with employment positions their *immediate family* members and *close relatives* have with such *affiliates* when these positions put them in a *key position* with respect to the *financial statement attest client* at those defined as an *affiliate* under (a) and (b).
5. This exception involves a *covered member* who is part of the *attest engagement team* or is an individual in a position to influence the *attest engagement*, or the *firm* itself, having a lease with an entity described as an *affiliate* under (c)–(l) that does not meet the requirements of the “*Leases*” interpretation (ET sec. 1.260.010) during the period of the professional

engagement. The *covered member* should use the “Conceptual Framework for Independence” to evaluate threats to the *member’s independence* and apply *safeguards* to mitigate threats that are not at an *acceptable level*.

- This exception is related to staff augmentation arrangements with entities described as an *affiliate* under items (c)–(l) of the definition of *affiliate* during the period of the professional engagement or during the period covered by the financial statements. The firm should use the “Conceptual Framework for Independence” to evaluate whether *threats* created by the staff augmentation agreement are not at an *acceptable level* and apply *safeguards* to reduce the *threats* to an *acceptable level*. If *safeguards* are not available or cannot be applied, the member should not enter into the staff augmentation arrangement.⁴

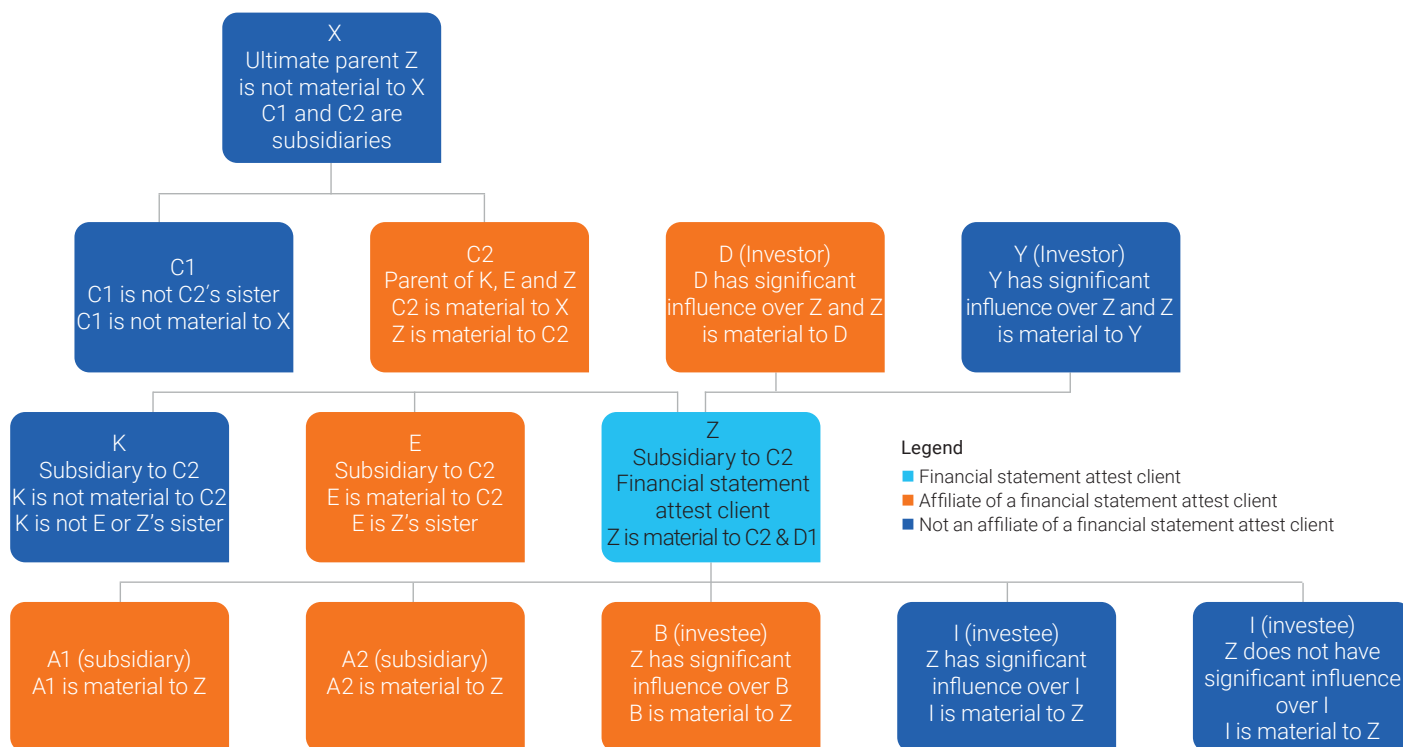
Is there any additional guidance to help me understand how to apply the affiliate definition and related interpretation?

The ethics division issued a series of nonauthoritative Q&As called “[Application of the independence rules to affiliates of employee benefit plans.](#)” These Q&As can help you better understand how the definitions and guidance provided in the “Client Affiliates” interpretation apply to *affiliates* of employee benefit plans subject to the Employee Retirement Income Security Act.

Is there a visual aid to help me understand the affiliate definition?

We created a visual aid to help explain how the first five entities, (a)–(e), identified in the *affiliate* definition could be related to Entity Z, the *financial statement attest client*. The letters used in the visual aid correspond with the letters used in the affiliate definition.

Figure 1: Affiliates visual aid



⁴ See “[How does a staff augmentation arrangement affect my independence?](#)” in chapter 3, “Applying the rules: Covered members and other firm professionals,” of this guide.

Is there an executive summary of the interpretation?

Type of relationship	Affiliate A	Affiliate B	Affiliate C	Affiliate D	Affiliate E	Affiliate F	Affiliate G	Affiliate H	Affiliate I	Affiliate J
Financial interest in	P	P	P	P	P	P	P	P	N/A	P
Loan to from	PS	PS	PS	PS	PS	PS	PS	PS	PS	PS
Nonattest services provided to	P	P	NSA	NSA	NSA	NSA	NSA	NSA	NSA	NSA
Member's employment or association with	P	P	A	A	A	A	A	A	A	A
Former employment or association with	P	P	P	P	P	P	P	P	P	P
Immediate family employment or interest in	P	P	R	R	R	R	R	R	R	R
Close relative employment or interest in	P	P	R	R	R	R	R	R	R	R

Tick mark key

P: The independence provisions contained in the AICPA Code of Professional Conduct should be applied to this affiliate.

PS: A member may have a loan to or from an individual who is an officer, a director or a 10% owner of an affiliate; however, if the covered member has knowledge of the individual's relationship with the affiliate, he or she should consult the "[Conceptual Framework for Independence](#)" interpretation (ET sec. 1.210.010).

A: The firm will have to apply safeguards outlined in paragraph .02 of the "[Subsequent Employment or Association With an Attest Client](#)" interpretation (ET sec. 1.279.020), if the former employee is in a key position at the affiliate. Even if the position is a non-key position, when considering employment, the individual must report the consideration to the appropriate person in the firm and be removed from the engagement.

R: Immediate family members and close relatives of a covered member may be employed at an affiliate, as long as the position does not put them in a key position with respect to the financial statement attest client.

NSA: Services are permitted if not subject to audit; see the second exception for details.

N/A: The relationship is not applicable.

Affiliate definitions

Affiliate A: Entity that a financial statement attest client can control.

Affiliate 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 is material to the financial statement attest client.

Affiliate C: An entity that controls a financial statement attest client when the financial statement attest client is material to the entity.

Affiliate 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.

Affiliate E: Sister entity of a financial statement attest client if the financial statement attest client and sister are material to the entity that controls both.

Affiliate F: Trustee that is deemed to control a trust financial statement attest client that is not an investment company.

Affiliate G: Sponsor of a single-employer employee benefit plan financial statement attest client.

Affiliate H: Union or participating employer having significant influence over a multiple-employer or multiemployer employee benefit plan financial statement attest client.

Affiliate I: Employee benefit plan sponsored by either a financial statement attest client or an entity controlled by the financial statement attest client.

Affiliate J: Investment adviser, general partner and trustee of an investment company financial statement attest client (the fund) if the fund is material to the investment adviser, general partner or trustee, and they are deemed to have either control or significant influence over the fund.

Is independence different for state and local government affiliates?

Yes and no. You will need to remain independent of affiliates of your state and local government *financial statement attest clients*, with one exception related to nonattest services (more on that later). [Financial interests](#) in, and other relationships with, affiliates may create [threats](#) to independence.

The first question to ask is, “What is a state and local government entity?” State and local governments are entities who should be following generally accepted accounting principles (GAAP) as set by GASB. State and local governments include general purpose governments like states, cities and Indian tribes, and special purpose governments such as school districts, utility districts and certain hospitals and universities. A more extensive list of general and special purpose governments can be found in paragraph .03d of the [“State and Local Government Client Affiliates”](#) interpretation (ET sec. 1.224.020), which is effective for years beginning after Dec. 15, 2021.

State and local governments may not have individuals who serve as officers, directors or owners. When an *independence* interpretation references those individuals, you should consider applying that guidance to officials of the state and local government *financial statement attest client* who have governance responsibilities or control over financial reporting. You should use your professional judgment to determine whether there are other *independence* interpretations where equivalent terms should be substituted in applying them in the state and local government environment.

Next, review the criteria for determining whether an entity is an affiliate in this environment. An entity could be a fund, a component unit, a department, an agency or other organizational unit as described in paragraph .03b of the [interpretation](#). If the entity is **not** required by the applicable financial reporting framework (GAAP, as an example) to be included in the *financial statements* of your *attest client*, it would not meet the definition of an affiliate.

So, who are affiliates? If they are material to your *financial statement attest client*, funds and blended component units are more likely than not affiliates. You would need convincing evidence to support why these entities would not be affiliates. Additionally, entities included in the *financial statements of your attest client*, when you don't reference another auditor, are affiliates.

For all other entities, there are two thresholds in determining an affiliate: (1) is the entity material to the *financial statement attest client* as a whole, and (2) does the *financial statement attest client* have more than minimal influence over the entity's accounting or financial reporting process? If the entity doesn't meet both thresholds, it isn't an affiliate.

Materiality is intended to be applied at the level of the *financial statement attest client's financial statements*, rather than individual opinion units in circumstances in which there may be more than one opinion unit.

Paragraphs .09 and .10 of the [interpretation](#) provide examples of and clarification on factors to consider when reaching your conclusion related to “more than minimal influence.”

Investments could also be affiliates. Paragraph .03c of the [interpretation](#) includes a list of things that are and are not considered investments. If your *financial statement attest client* has an investment the client can control, it is an affiliate, unless the investment is trivial and clearly inconsequential. Additionally, if the investment is material, and the *financial statement attest client* can't control the investment but has *significant influence* over it, the investment is an affiliate.

You would also apply this evaluation to any investments that are held by an affiliate that is included in the *financial statements of your financial statement attest client* where you don't reference another auditor.

The focus so far has been on affiliate relationships, but there are other circumstances and relationships that could create *threats to independence*. These situations may arise with entities that are affiliates or those that don't meet that threshold (nonaffiliates). If you determine that a *threat* exists, either in appearance or fact, you will need to apply the "[Conceptual Framework for Independence](#)" interpretation to evaluate whether that *threat* is, or can be, reduced to an *acceptable level*. Paragraph .06 of the [interpretation](#) provides a few examples of such circumstances and relationships.

And finally, there is the one exception for nonattest services. You can provide prohibited nonattest services to affiliates provided that those nonattest services don't create self-review *threats*, as it relates to the *financial statement attest client*, because the results of those services will not be subject to financial statement attest procedures. For all other *threats* created by the performance of nonattest services, apply *safeguards* to eliminate or reduce the *threats* to an *acceptable level*. This exception **does not apply** to nonattest services for investments or entities that are included in the *financial statements of your financial statement attest client* and other auditors are not referenced.

The revised interpretation is effective for years beginning after Dec. 15, 2021. To assist with implementing the interpretation, the Professional Ethics Division developed an [implementation guide](#) as well as [other resources](#).

Chapter 3

Applying the rules: Covered members and other firm professionals

How do the independence rules apply to me?

Whenever you are a *covered member*, you become subject to the full range of independence rules with regard to a specific *attest client*. You are a covered member if you are any of the following:

- a. An individual on the *attest engagement team* for the client.
- b. An *individual in a position to influence the attest engagement*.
- c. A *partner, partner equivalent* or *manager* who provides more than 10 hours of nonattest services to the *attest client*.
- d. A partner or partner equivalent in the *office* in which the lead *attest engagement partner* primarily practices in connection with the client's *attest engagement*.
- e. The *firm*, including the *firm's* employee benefit plans.
- f. An entity whose operating, financial or accounting policies can be *controlled* by any of the individuals or entities described in items (a)–(e) or by two or more such individuals or entities if they act together.

The SEC uses the term "covered person"⁵ to describe the individuals in a firm who are subject to SEC independence rules. This term is largely consistent with the AICPA's term "covered member."

Note: This guide uses the term *covered member* (and *covered person* with respect to SEC rules) extensively in explaining the "personal" independence rules (for example, rules that apply to you and your family's loans, investments and employment). Therefore, it is important that you understand these terms before proceeding. Also, remember to check your *firm's* policies to determine whether they are more restrictive than the AICPA or SEC rules.

Do threats exist when a member is on the attest engagement team for an extended period of time?

A familiarity threat exists when senior personnel are on the *attest engagement team* for an extended period of time. Nonauthoritative questions and answers regarding senior personnel's long association on an attest engagement are available in "[Frequently Asked Questions: General ethics questions](#)."

Do any of the rules apply to me if I am not a covered member?

Yes, these rules apply in certain circumstances even if you are not a *covered member*. Due to their significance, two categories of relationships impair independence even if you are not a *covered member*. These relationships are defined as follows:

- Director, officer or employee (or in any capacity equivalent to a member of management) of the *client*, promoter, underwriter, voting trustee or trustee of any of the client's employee benefit plans
- Owner of more than 5% of an *attest client's* outstanding equity securities (or other ownership interests)

The independence rules prohibit these relationships if you are a *partner* or professional employee in a public accounting *firm*. The 5% prohibition also extends to *immediate family* members. See paragraph .03 of the "[Overview of Financial Interests](#)" interpretation (ET sec. 1.240.010) for further details.

⁵ See Rule 2-01(f)(11). Also, see the definition of "covered persons in the firm" in Section IV(H)(9) of the SEC's [Final Rule Release Revision of the Commission's Auditor Independence Requirements](#).

What if I was formerly employed by an attest client or I was a member of the attest client's board of directors?

You must be aware of a number of things, including the following:

- a. You may not participate in the *client's attest engagement* or be in a position to influence the engagement for any periods covering the time you were associated with the *attest client*. So, for example, if you worked for the *attest client* during its 2015 fiscal year, you would be prohibited from serving on the *attest client's* audit engagement for the fiscal year 2015 *financial statements*. You also could not serve in a position that would allow you to influence the fiscal year 2015 engagement (for example, you could not directly or indirectly supervise the audit engagement *partner*). Additionally, if comparative *financial statements* are being issued that include the 2015 fiscal year, you could not participate in the engagement.
- b. Before becoming a *covered member*, you must do the following:
 - i. Dispose of any *direct financial interests* or material *indirect financial interests* in the attest client.⁶
 - ii. Collect and repay all *loans* to or from the *attest client* (except those specifically permitted or that have transition provisions.)⁷
 - iii. Cease active participation in the *attest client's* employee health and welfare plans (except for benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985).
 - iv. Cease to participate in all other employee benefit plans by liquidating or transferring all vested benefits in the *attest client's* defined benefit plans, defined contribution plans, *share-based compensation arrangements*, deferred compensation plans and other similar arrangements at the earliest date permitted under the plan. When the *covered member* does not participate on the *attest engagement team* or is not an *individual in a position to influence the attest engagement*, the *member* is not required to liquidate or transfer any vested benefits if such an action is not permitted under the terms of the plan or if a penalty⁸ significant to the benefits is imposed upon such liquidation or transfer.
 - v. Assess whether you have any other relationships with the *attest client* to determine whether such relationships create *threats* to *independence* that would require the application of *safeguards* to reduce the *threats* to an *acceptable level*.⁹

See the "[Former Employment or Association With an Attest Client](#)" interpretation (ET sec. 1.277.010) for further details.

⁶ See the section "[When do my \(or my family's\) financial interests impair independence?](#)" in chapter 6, "Financial relationships," of this guide.

⁷ Also, see the "[Loans and Leases With Lending Institutions](#)" interpretation (ET sec. 1.260.020).

⁸ A penalty includes an early withdrawal penalty levied under the tax law but excludes other income taxes that would be owed, or market losses that may be incurred, as a result of the liquidation or transfer.

⁹ See the section "[What should I do if no specific guidance exists on my particular independence issue?](#)" in chapter 1, "Introduction," of this guide.

What rules apply if I am considering employment with an attest client?

If an *attest client* offers you employment, or you seek employment with an *attest client*, you may need to take certain actions. If you are on that *client's attest engagement team* or can otherwise influence the engagement, you must promptly report any employment negotiations with the *attest client* to the appropriate person in your *firm*. You cannot participate in the engagement until your negotiations with the *attest client* end and employment with the client is no longer a possibility.

See the "[Considering Employment or Association With an Attest Client](#)" interpretation (ET sec. 1.279.010) for further details.

What if I accept employment or a board position with an attest client?

Being employed by an *attest client* or member of the *attest client's* board of directors *impairs independence*. Even if you leave your *firm* to take a position with an *attest client*, the *firm's independence* may be affected. This would be the case if you accept a *key position* with the *attest client*, which means you prepare *financial statements* or accounting records or are otherwise able to influence the *attest client's* statements or records. A few examples of *key positions* are controller, CFO or treasurer; the substance, not only the position title, determines whether a position is considered "key."

If you meet the following conditions, having a *key position* with an *attest client* will not impair your *firm's independence*:

- The amounts the firm owes you (capital balance or retirement benefits) are based on a fixed formula and are not material to the *firm*.

- You cannot influence the *firm's* operations or financial policies.
- You do not participate or appear to participate in the *firm's* business or professional activities.

Your *firm* must consider whether it should apply additional procedures to ensure that your transition to the *attest client* has not compromised the *firm's independence* and that *independence* will be maintained going forward. The *firm* should consider:

- whether you served on the engagement team and for how long;
- positions you held with the *firm* and your status;
- your position and status with the *attest client*; and
- the amount of time that has passed since you left the *firm*.

Based on these factors, the *firm* may decide to

- adjust the audit plan to reduce the risk that your knowledge of the plan could lessen the audit's effectiveness;
- reconsider the successor engagement team to ensure that it has sufficient stature and experience to deal effectively with you in your new position; or
- perform an internal technical review of the next *attest engagement* to determine whether engagement personnel exercised the appropriate level of professional skepticism in evaluating your work and representations.¹⁰

See the "[Subsequent Employment or Association With an Attest Client](#)" interpretation (ET sec. 1.279.020) for further details.

¹⁰ An objective professional with the appropriate stature and expertise should perform this review, and the firm should take any recommendations that result from the review.

Under SEC Rule 2-01(c)(2)(iii), if a former partner, principal, shareholder, or professional employee will be in an accounting role or financial reporting oversight role with an SEC audit client, the former partner may not have the following:

- A capital balance with the firm
- A financial arrangement with the firm (for example, retirement benefits) that is not fully funded by the firm
- Influence over the firm's operations or financial policies

The SEC uses the term *accounting role* to refer to a role where a person can or does exercise more than minimal influence over the contents of the accounting records or any person who prepares the accounting records.

The term *financial reporting oversight role* refers to any individual who has direct responsibility for oversight over those who prepare the registrant's financial statements and related information that are included in the filings with the commission. Both of these would fall into the definition of the AICPA term *key position*. The SEC also requires a one-year cooling-off period for members of the audit engagement team of an issuer who assumes a financial reporting oversight role with the client. In other words, if an engagement team member who participated on the audit of the current (or immediately preceding) fiscal year goes to work for a client, the firm's independence would be impaired.

Only members who provided fewer than 10 hours of services of audit, review or other attest services to the client (and did not serve as either the lead or concurring partner for the client) would be excluded from the audit engagement team for purposes of this rule.

This rule applies to an audit client and all affiliates.

What if I am employed as an adjunct faculty member at an educational institution that is an attest client?

This is the one and only exception to the prohibition on being employed at an *attest client*. Although being employed by an *attest client* as an adjunct faculty member still raises *threats to independence*, when certain specified *safeguards* are in place, *threats* can be reduced to an *acceptable level*, and *independence* can be maintained. The specific *safeguards* are that a *partner* or professional employee must not

- be in a *key position* at the educational institution;
- participate on the *attest engagement team*;
- be an individual in a position to influence the *attest engagement*;
- participate in any employee benefit plans sponsored by the educational institution, unless participation is required; or
- assume any management responsibilities or set policies for the educational institution.

How does a staff augmentation arrangement affect my independence?

Staff augmentation arrangements involve lending *firm* personnel to an *attest client* so that the *attest client* is responsible for the direction and supervision of the activities performed. This arrangement is different from a nonattest service engagement because the staff is supervised by the *attest client* and not by the *firm*. These types of arrangements may create familiarity, management participation, advocacy or self-review *threats* to the *firm's independence*. The following *safeguards* may reduce the threat to an *acceptable level* if they are all used:

- The arrangement is due to an unexpected situation that would create a significant hardship for the *attest client* to make other arrangements, such as the loss of a key employee.

- The arrangement is not expected to reoccur.
- The arrangement is for a short period of time, 30 days or less.
- The staff neither participates in, nor is in a position to influence, an *attest engagement* covering any period that includes the staff augmentation arrangement.
- The staff performs only activities that would be allowable under the “Nonattest Services” subtopic (ET sec. 1.295).
- The *firm* is satisfied that management has designated someone with suitable skill, knowledge and experience to oversee the activities of the staff.

For further details, see the [“Staff Augmentation Arrangements”](#) interpretation (ET sec. 1.275.007) and [related FAQs](#).

Chapter 4

Applying the rules: Network firms and firm mergers and acquisitions

What is a network firm?

CPA *firms* frequently form associations with other *firms* and entities and cooperate with them to enhance their capabilities to provide *professional services*. On occasion, such cooperation creates the appearance that *firms* are closely aligned or connected. Such appearance exists when one or more of the following characteristics are present:

- The use of a common brand name (including common initials) as part of the *firm* name.
- Common *control* among the firms through ownership, management or other means.
- Profits or costs sharing, excluding costs of operating the association; costs of developing audit methodologies, manuals and training courses; and other costs that are immaterial to the *firm*.
- Common business strategy that involves ongoing collaboration among the *firms* whereby the *firms* are responsible for implementing the association's strategy and are held accountable for performance pursuant to that strategy.
- The sharing of a significant part of professional resources, for example personnel, supplies or information systems.
- Common quality control policies and procedures that *firms* are required to implement and that are monitored by the association.

When a *firm* participates in such an association, and one or more of the preceding characteristics are present, the *firm* is considered a *network firm*. Any entity the *firm* controls by itself or through one or more of its owners is also considered a *network firm*. In addition, any entity that can *control* the *firm* or that the *firm* is under common *control* with would also be considered a *network firm*.

It is possible that not all *firms* in the association will meet one of the preceding characteristics. In such situations, only the subset of *firms* that meet one or more of the characteristics would be considered *network firms*.

How do I apply the network firm rules?

The "[Networks and Network Firms](#)" interpretation (ET sec. 1.220.010) under the "[Independence Rule](#)" (ET sec. 1.200.001) explains that when your *firm* is considered a *network firm*, your *firm* is required to remain *independent* of other *network firms*' audit and review clients and vice versa. Thus, a *network firm* may provide audit or review services for a client only insofar as other *network firms* are independent of the client. For example, other *network firms* could not provide prohibited nonattest services — that is, services that would impair *independence* under the "[Nonattest Services](#)" subtopic (ET sec. 1.295) of the "Independence Rule" — for that client or have any prohibited relationships, such as investments by the *firm* in the client or loans to or from that client. For all other *attest clients*, members of *network firms* should consider any *threats* the *firm* knows or has reason to believe may be created by *network firm* interests and relationships. If those *threats* are not at an *acceptable level*, the *member* should apply *safeguards* to eliminate the *threats* or reduce them to an *acceptable level*.

When a foreign *network firm* (a *firm* or entity that is part of the *network* that is located outside of the United States) departs from the "Independence Rule," the domestic *network firm's independence* is not *impaired* provided the foreign *network firm* has, at a minimum, complied with the *independence* requirements set forth in the [International Ethics Standards Board for Accountants'](#) Code of Ethics for Professional Accountants.

When determining whether a network exists, the SEC would look at all the facts and circumstances, especially how the firms treat one another when referring audit work (That is, do they place reliance on the work received by another firm? Or do they treat the work the same as if an unaffiliated firm performed the work?). At the SEC-PCAOB conference on December 10, 2007, it was noted that the SEC staff continue to follow the guidance issued in the SEC's January 2001 independence rulemaking regarding its definitions of *firm* and *affiliate*, meaning the staff will consider specific facts and circumstances, including the following:

- Does the primary auditor refer to another network firm in the audit opinion?
- Do the firms have common ownership, profit-sharing, or cost-sharing agreements?
- Do the firms share management, have a common brand name or use shared professional resources?
- Do the firms have common quality control policies and procedures?

How do I apply the rules in a merger or acquisition?

The "[Firm Mergers and Acquisitions](#)" interpretation (ET sec. 1.220.040) under the "Independence Rule" provides guidance in situations in which *independence* with respect to an *attest client* may become *impaired* as a result of a *firm* merger or acquisition. The guidance would apply when either (1) a *member's firm* merges with or acquires another *firm* or entity or all or part of the business thereof or (2) a *member's firm*, or all or part of the business thereof, is merged with or acquired by another *firm*. The interpretation focuses on two types of relationships that could *impair independence*: employment or association with an *attest client* and the provision of nonattest services that would *impair independence* (prohibited nonattest services).

Employment or association with an attest client

The interpretation requires certain *safeguards* to be in place in order for *independence* to be maintained when a *partner* or professional employee of one *firm* is employed by or associated with an *attest client* of the other *firm*. Such *safeguards* require that the *partner* or professional employee terminate the relationship prior to the closing date of the merger or acquisition and be prohibited from participating on the *attest engagement team* or being an *individual in a position to influence the attest engagement* if the engagement covers any period in which the *partner* or employee was employed or associated with the *attest client*. The *partner* or employee must also comply with any applicable *safeguards* under the provisions of the "[Former Employment or Association With an Attest Client](#)" interpretation regarding disassociation from an *attest client*, such as the *safeguard* that requires any *covered member* to cease participation in the *attest client's* employee benefit plans.

The interpretation also requires that a responsible individual within the *firm* (for example, an individual with responsibility for the policies and procedures relating to *independence*) assess the prior relationship that the *partner* or professional employee had with the *attest client* as well as the position that the individual will hold at the *firm* to determine whether *threats* are at an *acceptable level*. If *threats* are determined not to be at an *acceptable level*, the responsible individual will need to be satisfied that *safeguards* are applied that will eliminate or reduce *threats* to an *acceptable level*.

The interpretation further requires that in situations where the *partner* or professional employee will interact with the *attest engagement team* or where the *attest engagement team* will evaluate work performed by the *partner* or professional employee while he or she was employed or associated with the *attest client*, an individual within the *firm* with the appropriate stature, expertise and objectivity must review the subsequent *attest engagement*, prior to issuing the attest report, to determine whether the *attest engagement team* maintained integrity, objectivity, and as appropriate, professional skepticism.

Finally, the interpretation requires that the nature of the relationship and any *safeguards* that were applied be discussed with *those charged with governance* and that such discussion take place as soon as practicable under the circumstances but before issuing the attest report and encourages the substance of the discussions be documented.

Nonattest services

The interpretation provides *independence* guidance in situations where one *firm* provided prohibited nonattest services to an *attest client* of the other *firm*. The interpretation acknowledges that the significance of the *threats* differ depending on whether the prohibited nonattest services were provided by the “acquiring firm” with respect to an *attest client* of the acquired *firm* or by the “acquired firm” with respect to an *attest client* of the acquiring *firm*.

In situations where the acquiring *firm* provided prohibited nonattest services to an *attest client* of the acquired *firm* during the *period of professional engagement* or the period covered by the *financial statements*, *threats* would be so significant that they could not be reduced to an *acceptable level*. For example, in the situation where the acquired *firm’s attest client* would become an *attest client* of the acquiring *firm* (that is, the surviving *firm*) upon the merger or acquisition, any prohibited nonattest services performed by the acquiring *firm* for such an *attest client* would impair *independence* if the *attest engagement* were to continue.

Alternatively, if the acquired *firm* provided the prohibited nonattest services to an *attest client* of the acquiring *firm* during the *period of the professional engagement* or the period covered by the *financial statements*, the acquiring *firm’s independence* will not be *impaired* provided certain conditions are met. The first condition is for the acquired *firm* to either terminate the prohibited nonattest services or modify the nonattest services such that the services will no longer be considered to *impair independence*. This condition should be met prior to the closing date of the acquisition. The second condition is that any individual who participated in the prohibited nonattest services engagement not be on the *attest engagement* or in a position to influence the *attest engagement*. The last condition is for the *firm* to perform an evaluation to determine whether *threats* are either at an *acceptable level* or can be reduced to an *acceptable level* by the application of *safeguards*. The extent of the evaluation performed would be based on whether the prohibited nonattest services will be attributable to the acquiring *firm*. The nonattest services will be considered attributable to the acquiring *firm* if the acquiring *firm* will assume responsibility (that is, be held liable or accountable or both) for the results of the prohibited nonattest services performed by the acquired *firm*.

In evaluating the significance of any *threats*, the interpretation provides various factors that should be considered and where *threats* are determined not to be at an *acceptable level*, the interpretation provides examples of possible *safeguards* to be applied. In cases where no *safeguards* exist that can eliminate or reduce *threats* to an *acceptable level*, *independence* would be *impaired*.

The interpretation also requires that a responsible individual within the *firm* discuss with *those charged with governance* the nature of any prohibited services performed that are subject to the evaluation, along with any *safeguards* applied, and encourages documentation of such discussion. This discussion should occur as soon as practicable under the circumstances but before issuing the attest report.

Chapter 5

Applying the rules: Family members

When is my family subject to the rules?

If you are a [covered member](#) with respect to an [attest client](#), members of your [immediate family](#) (your spouse or equivalent and dependents) generally must follow the same rules you follow. For example, your spouse's investments must be investments you could own under the rules. This rule applies even if your spouse keeps the investments in the spouse's own name or with a different broker. In addition, when materiality is a factor, the *covered member's* and *immediate family member's* [financial interests](#) are combined.

This general rule has the following exceptions for certain employment situations and employee benefit plans:

- a. Your *immediate family* member's employment with an *attest client* would not [impair](#) your [firm's independence](#), provided the family member is not in a [key position](#).
- b. *Immediate family* members in permitted employment positions may participate in certain employee benefit plans (other than certain share-based arrangements or nonqualified deferred compensation plans) that are *attest clients* or sponsored by an *attest client*, provided the plan is offered to all employees in comparable positions, and the *immediate family* member does not serve in a position of governance for the plan or have the ability to supervise or participate in the plan's investment decisions or selection of investment options.
- c. *Immediate family* members of certain *covered members* may invest in an *attest client* through employee benefit plans that aren't considered [share-based compensation arrangements](#) or nonqualified deferred compensation arrangements (for example, retirement or savings accounts), provided the *immediate family* member has no other investment options available for selection, and when such option becomes available, the *immediate family* member selects the option and disposes of any *financial interest* in the *attest client*.

- d. *Immediate family* members in permitted employment positions of certain *covered members* may participate in *share-based compensation arrangements* and nonqualified deferred compensation plans, provided certain [safeguards](#) are implemented.
- e. The *covered members* whose families may invest or participate in the plans described in items (c)–(d) are
 - i. [partners](#) and [managers](#) who provide only nonattest services to the *attest client* or
 - ii. partners or [partner equivalents](#) who are *covered members* only because they practice in the same [office](#) where the *attest client's* lead *attest partner* practices in connection with the engagement.

At no time may any [direct](#) or material [indirect financial interests](#) in an *attest client* permitted by the preceding exceptions exceed 5% of the *attest client's* outstanding equity securities or other ownership interests.

If you are not a *covered member*, see the section "[Do any of the rules apply to me if I am not a covered member?](#)" in chapter 3, "Applying the rules: Covered members and other firm professionals," of this guide.

Under SEC rules, if you are a covered person, your independence is affected if your immediate family member has any direct investment, has any material indirect investment, has the authority to make investment decisions for a trust containing the securities of another client, or owns more than 5% of a client's equity securities or controls the client.

The SEC rules concerning holding unexercised stock options require that the immediate family member dispose of the financial interest as soon as practicable. The AICPA rule recognizes that a privately held entity may not have a ready market for its shares or that thinly traded securities may have volatile markets. Therefore, the triggering event requiring an immediate family member to exercise the vested stock options occurs when the market price of the underlying stock equals or exceeds the exercise price for 10 consecutive days.

Alternatively, the SEC's rules concerning employee stock ownership plans (ESOPs) are more restrictive than the AICPA's rules in that the immediate family member must dispose of the publicly traded shares received as soon as possible but not later than 30 days after the person has the ability to dispose of them. Because the AICPA rules deal exclusively with private sector securities, it is possible that when the immediate family member receives shares from an ESOP, the family member may not be able to dispose of the shares because there is not a ready market for the shares. Accordingly, the AICPA's rules allow the immediate family member to require the employee to exercise the employee's put option for the employer to repurchase the shares as soon as permitted by the ESOP terms. If the employer does not pay for the repurchase shares within 30 days, the repurchase obligation must be immaterial to the covered member during the payout period.

What about my other relatives?

The *close relatives* (siblings, parents and nondependent children) of most *covered members* are subject to some employment and financial restrictions. Your *close relative's* employment by an *attest client* in a *key position impairs independence*, except for *covered members* who are considered *covered members* only because they provided more than 10 hours of nonattest services to the *attest clients*.

Rules pertaining to your *close relatives' financial interests* differ depending on why you are considered a *covered member*, explained as follows:

- If you are a *covered member* because you participate on the client's *attest engagement team*, your *independence* would be considered to be *impaired* if you are aware that your *close relative* has a *financial interest* in the *attest client* that either:
 - is material to your relative's net worth or
 - enables the relative to exercise *significant influence* over the *attest client*.
- If you are a *covered member* because you are able to influence the *attest engagement* or are a *partner* or *partner equivalent* in the *office* in which the lead *attest engagement partner* practices in connection with the engagement, your *independence* will be *impaired* if you are aware that your *close relative* has a *financial interest* in the *attest client* that:
 - is material to your relative's net worth and
 - enables your relative to exercise *significant influence* over the *attest client*.

Under SEC rules, if you are a covered person, your independence is affected if your close family member has an accounting role or financial reporting oversight role with the SEC audit client (for example, the family member is a treasurer, CFO, accounting supervisor, or controller) or if any partner's close family member owns more than 5% of a client's equity securities or controls an SEC audit client.

Chapter 6

Financial relationships

When do my (or my family's) financial interests impair independence?

This chapter discusses various types of financial relationships and how they affect *independence*. Although this chapter focuses on how these rules apply to you and your family, keep in mind that your *firm* is also subject to the financial relationship rules because the AICPA Code of Professional Conduct (the code) includes *firms* in its definition of *covered member*.

As a *covered member*, you (and your spouse or spousal equivalent and dependents) are not permitted to have a

- *direct financial interest* in an *attest client*, regardless of how immaterial it would be to your net worth, or
- material *indirect financial interest* in the *attest client*.

Note: The code does not define or otherwise provide guidance on determining materiality. In determining materiality, you should apply professional judgment to all relevant facts and circumstances and refer to applicable guidance in the professional literature. Both qualitative and quantitative factors should be considered.

In addition, if you commit to acquire a *direct* or material *indirect financial interest* in an *attest client*, your *independence* would be *impaired*. For example, if you sign a stock subscription agreement with the *attest client*, your *independence* would be considered *impaired* as soon as you sign the agreement.

Examples of *financial interests* include shares of stock; mutual fund shares; debt security issued by an entity; partnership units; stock rights; options or warrants to acquire an interest in an *attest client*; or rights of participation, such as puts, calls or straddles.

The following types of *financial interests* are *direct financial interests*:

- Owned by you directly;
- Under your control;
- Beneficially owned¹¹ by you through an investment vehicle, an estate, a trust or another intermediary if you can either:
 - control the intermediary or
 - have the authority to supervise or participate in the intermediary's investment decisions.

For example, if you invest in a participant-directed 401(k) plan whereby you are able to select the investments held in your account or are able to select from investment alternatives offered by the plan, you would be considered to have a *direct financial interest* in the investments held in your account.

You also have a *direct financial interest* in an *attest client* if you have a *financial interest* in an *attest client* through one of the following:

- A partnership, if you are a general partner;
- A Section 529 savings plan, if you are the account owner;
- An estate, if you serve as an executor and meet certain other criteria; or
- A trust, if you serve as the trustee and meet certain other criteria.

For example, suppose you are a *covered member* with respect to ABC Co. and you are also a general partner of XYZ Partnership. XYZ Partnership owns shares in ABC Co. Under the *independence* rules, you would be deemed to have a *direct financial interest* in ABC Co. that would *impair* your *independence*, regardless of materiality.

¹¹ A financial interest is beneficially owned if an individual or entity is not the record owner of the interest but has a 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.

An *indirect financial interest* arises if you have a *financial interest* that is beneficially owned through an investment vehicle, an estate, a trust or another intermediary and you can neither control the intermediary nor have the authority to supervise or participate in the intermediary's investment decisions.

For example, if you invest in a defined contribution plan that is not participant directed, and you have no authority to supervise or participate in the plan's investment decisions, you would be considered to have an *indirect financial interest* in the underlying plan investments, in addition to a *direct financial interest* in the plan.

Note: The "[Financial Interests](#)" subtopic (ET sec. 1.240), the "[Trusts and Estates](#)" subtopic (ET sec. 1.245), and the "[Insurance Products](#)" subtopic (ET sec. 1.257) of the "[Independence Rule](#)" (ET sec. 1.200.001) provide extensive examples of various types of *financial interests* and whether they should be considered to be *direct* or *indirect financial interests*, including investments in mutual funds, retirement and savings plans, Section 529 plans, trusts, partnerships and insurance products.

The SEC classifies your investment in an SEC audit client held through another entity (the intermediary) as direct if either of the following is true:

- You participate in the intermediary's investment decisions or have control over them.
- The investment in the client by the intermediary (which is not a diversified mutual fund) represents 20% or more of the value of its total investments.

If neither of the preceding applies, your investment in an SEC audit client through another entity would normally be considered to be an *indirect financial interest* in that client.

What if my immediate family or I receive a financial interest as a result of an inheritance or a gift?

If, due to an unexpected event, you or members of your [immediate family](#) receive a *financial interest* in an *attest client* that would impair your *independence*, you may qualify under an exemption in the rules if you meet the following criteria:

- The *financial interest* was unsolicited.
- You dispose of the interest as soon as practicable but no later than 30 days after you become aware of it and have the right to dispose.
- If the interest is material, but you do not have the right to dispose of the interest (for example, as in the case of stock options or restricted stock), you do not participate in the [attest engagement](#).

What are the rules that apply to my mutual fund investments (and those of my family) if my firm audits those mutual funds?

If you are a *covered member* with respect to a mutual fund *attest client* of your firm, and you or your *immediate family* own shares in the fund, you have a *direct financial interest* in the fund client.

The SEC rules also prohibit the firm and covered persons and their immediate family members from having any financial interest in an entity (even one that is not a client) that is part of an investment company complex that includes an SEC audit client.

Which rules pertain to my mutual fund investments (and those of my family) if my firm audits companies held in those mutual funds?

Financial interests that you and your *immediate family* have in *attest clients* through a mutual fund are considered to be *indirect financial interests* in those *attest clients* unless the fund is a diversified mutual fund.

If a mutual fund is diversified, and you or your *immediate family*, or both, own 5% or less of its outstanding shares, the fund's holdings in *attest clients* for which you are a *covered member* will not be considered material *indirect financial interests* in those *attest clients*. Thus, you would be relieved of the burden of having to monitor whether, and to what degree, the fund invests in *attest clients* for which you are a *covered member*.

If the fund is not diversified or if you or your family, or both, own more than 5% of the fund's equity, you should treat the fund's holdings as *indirect financial interests*.

For example, suppose ABC Mutual Fund, a diversified mutual fund, owns shares in *attest client* XYZ, and

- ABC Mutual Fund's net assets are \$10 million;
- your shares in ABC Mutual Fund are worth \$50,000;
- ABC Mutual Fund has 10% of its assets invested in XYZ; and
- your *indirect financial interest* in XYZ is \$5,000 ($\$50,000 \times 0.10$).

If \$5,000 is material to your net worth, *independence* would be considered to be *impaired*.

May I have a joint closely held investment with an attest client?

As a *covered member*, if you or the *attest client*, individually or collectively, controls an investment, that investment is considered to be a *joint closely held investment*. If this *joint closely held investment* is material to your net worth, *independence* would be considered to be *impaired*. In this rule, the term *attest client* includes certain persons associated with the *attest client*, such as officers, directors or owners, who are able to exercise *significant influence* over the *attest client*.

The SEC rules prohibit you and your immediate family from having:

- a. any direct or material indirect investment in an entity where the audit client has an investment in that entity that is material to the audit client and has the ability to exercise significant influence over that entity or the entity has an investment in an audit client that is material to that entity and has the ability to exercise significant influence over that audit client;
- b. any material investment in an entity over which an audit client has the ability to exercise significant influence; or
- c. the ability to exercise significant influence over an entity that has the ability to exercise significant influence over an audit client.

The SEC believes that these joint ventures, regardless of whether they are material, cause the client and audit firm to have mutuality of interests, which impairs independence.

May my family or I borrow money from, or lend money to, an attest client?

If you are a *covered member* with respect to an *attest client*, you and your *immediate family* may not have a *loan* to or from:

- the *attest client*;
- an officer or a director of the *attest client*; or
- an individual holding 10% or more of the *attest client's* outstanding equity securities (or other ownership interests).

Certain exceptions affect this rule. First, specific *loans* exist that *covered members* are permitted to have from *lending institution attest clients*, including:

- car *loans* and leases collateralized by the vehicle;
- credit card and overdraft reserve account balances that are kept current and do not exceed \$10,000 (by payment due date, including any grace period);
- passbook *loans* fully collateralized by cash deposits at the same financial institution; and
- *loans* fully collateralized by an insurance policy.

In addition, if you have a *loan from a lending institution that is an attest client* (for example, a bank) that meets certain criteria, your *loan* may be eligible for a transition provision (that is, you may be allowed to keep it). For your *loan* to be eligible for a transition provision, you must have obtained it under *normal lending procedures, terms and requirements*. The following *loans* may be eligible for a transition provision:

- Home mortgages
- Other secured *loans*
- Unsecured *loans* that are immaterial to your net worth

Generally speaking, a *loan* may be eligible for a transition provision if you obtained it before

- you became a *covered member* with respect to the *attest client*;
- the lending institution became an *attest client*; or
- the *attest client* acquired the *loan*.

To maintain your *loan's* eligibility for a transition provision status, you must keep the *loan* current (that is, make timely payments according to the *loan* agreement). In addition, you cannot renew or renegotiate the terms of the *loan* (for example, the interest rate or formula) unless the change was part of the original agreement (for example, an adjustable rate mortgage).

Under the SEC rules, there are no transition provisions. The SEC rules provide exceptions only for the following loans obtained from a lending institution under its normal lending procedure, terms and requirements:

- Automobile loans and leases collateralized by the automobile
- Loans fully collateralized by the cash surrender value of an insurance policy
- Loans fully collateralized by cash deposits at the same financial institution
- Mortgage loan collateralized by the borrower's primary residence provided the loan was not obtained while the covered person in the firm was a covered person
- Student loans provided the plans were not obtained while the covered person in the firm was a covered person

An accountant would not be independent when the accounting firm, any covered person in the firm, or any of his or her immediate family members has any loan (including any margin loan) to or from an audit client, or an audit client's officers, directors or beneficial owners (known through reasonable inquiry) of the audit client's equity securities where such beneficial owner has significant influence over the audit client. "Significant influence" refers to the principles in FASB *Accounting Standards Codification (ASC) 323, Investments – Equity Method and Joint Ventures*. Reasonable inquiry is an inquiry by the auditor to the audit client in conjunction with the consideration of the audit client's governance structure, governing documents, commission filings or other information prepared by the audit client that may relate to the identification of a beneficial owner.

The prior test for loans to or from record or beneficial owners of an audit client's equity securities (1) has been replaced with a test for beneficial owners known through reasonable inquiry of an audit client's equity securities and (2) no longer references a more than 10% ownership test, but rather is based on significant influence over the audit client.

May I have a brokerage account with an attest client?

The AICPA rules indicate that for *independence* to be maintained, a *covered member* whose assets are held by a broker-dealer *attest client* must not receive any preferential treatment or terms, and any assets that are subject to *risk of loss* must be immaterial to the *covered member's* net worth. In addition, margin accounts may be subject to the preceding *loan* rules.¹²

Under the SEC rules, you may have a brokerage account with an SEC audit client if your account holds only cash or securities and is fully insured by the Securities Investor Protection Corporation.

May I have a bank account with an attest client?

As a *covered member*, you may have a *bank account with a client bank or similar depository institution* (for example, checking, savings, money market accounts and certificates of deposit) if your deposits are fully insured by state or federal deposit insurance agencies or if uninsured amounts are not material to your net worth.¹³

The SEC prohibits covered persons and their immediate families from having bank account balances with an SEC audit client in excess of FDIC insurance limits. That is, deposits in excess of FDIC limits are considered to impair independence, even if the amounts are immaterial to you and your family.¹⁴

¹² See the section "[May my family or I borrow money from, or lend money to, an attest client?](#)"

¹³ Both AICPA and SEC rules permit a practical exception for firms that maintain deposits exceeding insured limits when the likelihood of the financial institution experiencing financial difficulties is considered remote.

¹⁴ The SEC treats money market funds (as opposed to money market accounts) as mutual funds for purposes of its rules. Also see [Rule 2-01\(c\)\(1\)\(ii\)\(B\)](#).

May I have an insurance policy with an attest client?

The AICPA rules¹⁵ indicate that to maintain *independence*, a *covered member* must not receive any preferential treatment or terms when purchasing an insurance policy from an *attest client*. If the policy has an investment option, the *financial interest* rules must be applied.

The SEC prohibits covered persons and their immediate family members from owning an individual insurance policy issued by an SEC audit client unless both of the following criteria are met:

- The individual obtained the policy before the professional became a covered person.
- The likelihood of the insurer becoming insolvent is remote.

May I give gifts or entertainment to, or accept gifts or entertainment from, an attest client?

The “[Offering or Accepting Gifts or Entertainment](#)” interpretation (ET sec. 1.285.010) under the “Independence Rule” addresses the exchange of gifts and entertainment among *covered members*, the *attest client* and certain persons associated with the *attest client* (for example, persons in [key positions](#) and persons owning 10% or more of the *attest client*’s outstanding equity securities or other ownership interests).

Independence is *impaired* if the *firm*, a member of the [attest engagement team](#), or a person able to influence the engagement accepts a gift that is not clearly insignificant.

A *covered member* may give a gift to persons associated with the *attest client* and not *impair independence* if the gift is reasonable in the circumstances. In addition, *covered members* may give or receive entertainment, provided it too is reasonable in the circumstances.

The “[Offering or Accepting Gifts or Entertainment](#)” interpretation (ET sec. 1.120.010) under the “[Integrity and Objectivity Rule](#)” (ET sec. 1.100.001) covers a broader issue when [partners](#), professionals or their *firms* exchange gifts or entertainment with [clients](#) (not just *attest clients*) or persons associated with *clients*. Generally, gifts are differentiated from entertainment by whether the *client* participates in the activity with the *firm* member. (For example, giving tickets to a sporting event for the *client* to use would be considered a gift, whereas attending the event with the *client* would be considered entertainment.)¹⁶

Relevant factors in determining reasonableness include the event or occasion (if any) giving rise to the gift or entertainment, cost or value, frequency, whether business was conducted and who participated.

¹⁵ The guidance is found in the “[Insurance Products](#)” subtopic (ET sec. 1.257) of the “Independence Rule” (ET sec. 1.200.001).

¹⁶ See the [Gifts and Entertainment Basis for Conclusion](#)

Chapter 7

Business relationships

Which business relationships with an attest client impair independence?

As a *partner* or professional employee of your *firm*, *independence* would be considered to be *impaired* if you entered into certain business relationships with an *attest client* of the *firm*. Accordingly, you may not serve an *attest client* as any of the following:

- Employee, director, officer or in any management capacity
- Promoter, underwriter or voting trustee
- Stock transfer or escrow agent
- General counsel (or equivalent)
- Trustee for an *attest client's* pension or profit-sharing trust

In essence, any time you are able to assume *management responsibilities* for an *attest client* or exercise authority over an *attest client's* operations or business affairs, *independence* is *impaired*. Your *independence* is considered *impaired* even if you were a volunteer board member because you would be part of the *attest client's* governing body and, therefore, would be able to participate in managing the entity.

Three possible exceptions apply to this rule:

1. You may serve as an *adjunct faculty member* of an educational institution that is an *attest client* provided certain safeguards are in place (see chapter 3).
2. If you are an *honorary director or trustee* for an *attest client* that is a not-for-profit charitable, civic or religious organization, you may hold such position with a client if:
 - a. your position is purely honorary;
 - b. you do not vote or participate in managing the organization; or
 - c. your position is clearly identified as honorary in any internal or external correspondence.

3. In addition, you may serve on a *client's advisory board* if all the following criteria are met:
 - a. The board's function is purely advisory.¹⁷
 - b. The board does not appear to make decisions for the *attest client*.
 - c. The advisory board and any decision-making boards are separate and distinct bodies.
 - d. Common membership between the advisory board and any decision-making groups is minimal.

The SEC prohibits direct or material indirect business relationships or an indirect material relationship with an SEC audit client (or beneficial owners with significant influence over the audit client), except when the firm is acting as a consumer in the ordinary course of business (for example, purchasing goods or services from a client at normal commercial terms and these goods or services will be consumed by the firm). Examples of prohibited business relationships include joint business ventures, limited partnership agreements and certain leasing interests.

¹⁷ When evaluating your independence, you should examine the applicable board or committee charter to determine whether it is consistent with the "Independence Rule" (ET sec. 1.200.001).

Chapter 8

Nonattest services

Which rules describe the nonattest services that my firm and I may or may not provide to attest clients?

Nonattest services include accounting, tax and consulting services that are not part of an *attest engagement*. Activities such as *financial statement* preparation, cash-to-accrual conversions and reconciliations are considered outside the scope of the *attest engagement* and, therefore, constitute a nonattest service. Nonattest services specifically addressed in the rules are the following:

- Advisory services
- Appraisal, valuation or actuarial services
- Benefit plan administration services
- Bookkeeping, payroll and other disbursement services
- Business risk consulting services
- Corporate finance consulting services
- Executive or employee recruiting services
- Forensic accounting services
- Hosting services
- Information systems design, implementation or integration services
- Internal audit services
- Investment advisory or management services
- Tax services

In addition to considering the general standard and the four guiding principles (mutual or conflicting interest with the audit client, position to audit their own work, acting as management or an employee of the audit client, and position of being an advocate for the audit client), the SEC rules generally prohibit a CPA from providing the following services to an SEC audit client during the audit and professional engagement period:

- Bookkeeping and other services related to the client's accounting records or financial statements
- Financial information systems design and implementation
- Appraisal or valuation services, service opinions or contribution-in-kind reports
- Actuarial services
- Internal audit outsourcing services
- Management functions
- Human resources
- Broker-dealer, investment adviser or investment banking services
- Legal services
- Expert services unrelated to the audit

Under PCAOB rules, the following types of services are also subject to significant restrictions if the auditor provides them to an issuer during the audit and professional engagement period:

- Aggressive or confidential tax transactions
- Personal tax services provided to persons in financial reporting oversight roles

If your *firm* performs nonattest services for an *attest client*, the *independence* rules impose limits on the nature and scope of the services your *firm* may provide. In other words, the extent to which your *firm* may perform certain tasks will be limited by the rules. Further, certain services will be prohibited entirely (for example, serving as an *attest client*'s general counsel). These rules apply during the *period of professional engagement* and the period covered by the *financial statements* (to which the attest services relate). However, if the *firm* provided the entity with prohibited nonattest services prior to the entity becoming an *attest client*, *independence* would not be *impaired* if the prohibited nonattest services related to periods prior to the period covered by the *financial statements* the *firm* is engaged to audit, and those prior-period *financial statements* were audited by another *firm* (or, in the case of a review engagement, reviewed or audited by another *firm*).

The SEC staff FAQ document *Office of the Chief Accountant: Application of the Commission's Rules on Auditor Independence – Frequently Asked Questions*, updated in June 2019, includes 11 questions related to nonaudit services provisions of the rule.

FAQ No. 4 under section E addresses the question of whether a successor auditor who performed one of the prohibited services (bookkeeping, internal audit outsourcing, valuation services, actuarial services or financial information system design and implementation) during the prior audit period would be independent of the SEC audit client during the current audit period. The FAQ states that if the services (a) relate solely to the prior period audited by the predecessor auditor and (b) were performed before the successor auditor was engaged to audit the current audit period, independence would not be impaired. However, independence would be impaired if the successor auditor was engaged to help design a client's financial system in the prior audit period, and the system is not implemented until the current period.

FAQ No. 11 under section E addresses the question of whether an auditor, prior to being dismissed, is precluded from proposing on prohibited nonaudit services to be provided after the audit has been completed and the professional engagement period has ended. The FAQ states that proposing on prohibited nonaudit services while the firm is still the auditor heightens the threat, both in fact and appearance, of audit team members acquiescing to management in order to increase the firm's chance of winning the prohibited nonaudit services engagement. As such, independence could be impaired.

This chapter does not discuss each of these prohibited nonattest services but, rather, focuses on a few for purposes of illustration. To see the full context of the rules, see the [“Nonattest Services”](#) subtopic (ET sec. 1.295) under the “Independence Rule” (ET sec. 1.200.001) and [SEC Rule 2-01\(c\)\(4\)](#). You also are encouraged to review [Frequently Asked Questions: Performance of Nonattest Services](#) developed by the Professional Ethics Division and the [“Prohibited and Non-audit Services”](#) section of *Office of the Chief Accountant: Application of the Commission’s Rules on Auditor Independence – Frequently Asked Questions* developed by the SEC’s Office of the Chief Accountant.

The AICPA rules require a [member](#) to comply with more restrictive *independence* provisions, if applicable, of certain regulators, such as state boards of accountancy and the SEC, the Government Accountability Office and the Department of Labor.

SEC and PCAOB rules require independence of an issuer that is an audit client and various affiliated entities of the client.¹⁸

Note: SEC rules also require a client’s audit committee (or equivalent) to preapprove all audit and nonaudit services provided by the firm to an issuer and the issuer’s consolidated entities. Proposals to provide tax or internal control–related services are subject to more extensive audit committee preapproval requirements under PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*, and Rule 3525, *Audit Committee Pre-Approval of Non-audit Services Related to Internal Control Over Financial Reporting*. PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, superseded the PCAOB’s interim standard Independence Standards Board Independence Standard No. 1, *Independence Discussions with Audit Committees*, and its interpretations. Before accepting a new audit engagement, and annually thereafter, the auditor must describe in writing to the issuer’s audit committee all relationships between the auditor and client (including affiliates of both) that could reasonably be thought to bear on independence, discuss these matters with the audit committee, and document the substance of that discussion (effective Sept. 30, 2008).

¹⁸ See [Rule 2-01\(f\)\(4\) and \(6\)](#).

AICPA general requirements

General requirement 1

The “[General Requirements for Performing Nonattest Services](#)” interpretation (ET sec. 1.295.040) explains the main *safeguards* that need to be applied whenever *members* provide nonattest services to their *attest clients*.

The first general requirement explains that the *attest client* must agree to assume certain responsibilities related to the nonattest services engagement in order for *independence* to be maintained. Therefore, prior to agreeing to perform any nonattest services for the *attest client*, the *member* must obtain the *attest client’s* agreement that the *attest client* will do the following:

- a. Assume all management responsibilities as described in the “[Management Responsibilities](#)” interpretation (ET sec. 1.295.030) under the “Independence Rule.”
- b. Oversee the service by designating an individual, preferably within senior management, who possesses suitable skill, knowledge and experience. The *member* should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them but is not required to possess the expertise to perform or re-perform the services.
- c. Evaluate the adequacy and results of the services performed.
- d. Accept responsibility for the results of the services.

With regard to the preceding list, the *member* should be satisfied that the *attest client* designee will be able to meet these criteria, make an informed judgment on the results of the nonattest services, and be responsible for making all significant judgments and decisions that are the proper responsibility of management. The *attest client* also must be willing to commit the time and resources needed for the designee to fulfill these duties.

General requirement 2

One of the key principles underlying the AICPA rules on nonattest services is that you may not assume management responsibilities or even appear to assume management responsibilities. Management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical and intangible resources. Examples of management responsibilities can be found in the “Management Responsibilities” interpretation under the “Independence Rule.”

General requirement 3

Before performing nonattest services, the *firm* should establish and document its understanding with the *attest client* regarding the following:

- Objectives of the engagement.
- Services to be performed.
- *Attest client’s* acceptance of its responsibilities.
- *Member’s* responsibilities.
- Any limitations of the engagement.

The *firm* should document the understanding in the engagement letter, audit planning memo or internal firm file.

Note: Routine activities such as providing advice and responding to questions as part of the normal client-member relationship are exempt.

Are financial statement preparations, cash-to-accrual conversions and reconciliations considered nonattest services?

The AICPA *independence* rules consider the preparation of *financial statements*, cash-to-accrual conversions, and reconciliations to be outside the scope of the *attest engagement*; therefore, they constitute nonattest services. Such activities would not impair independence if the requirements of the [interpretations](#) of the “Nonattest Services” subtopic are met.

For additional information, listen to [episode 25](#) of the “Ethically Speaking” podcast.

What are the rules concerning performing bookkeeping services for an attest client?

The AICPA *independence* rules prohibit *members* from assuming management responsibilities in all circumstances. Accordingly, a *member* may provide bookkeeping services if the *attest client* oversees the services and, among other things, performs all management responsibilities in connection with the services. For example, if a *member* is engaged to provide bookkeeping services that will result in a set of *financial statements*, the *attest client* must

- approve all account classifications;
- provide source *documents* to the *member* so that the member can prepare journal entries; and
- take responsibility for the results of the *member's* services (for example, *financial statements*).

Note: Proposing adjusting entries to an *attest client's financial statements* as part of the *member's* audit, review or compilation services is considered a normal part of those engagements and would not be considered performance of a nonattest service subject to the provisions of the “Nonattest Services” subtopic, provided the *attest client* reviews these entries and understands the effect on its *financial statements* and records of any adjustments identified by the *member* that the *attest client* believes appropriate.

Because of self-audit concerns, performing any type of bookkeeping service for an SEC audit client is considered to impair independence under SEC rules unless it is reasonable to conclude that the results of the auditor's services will not be subject to the firm's audit procedures. The SEC considers there to be a rebuttable presumption that the results of these services would be subject to audit procedures; therefore, the firm must overcome the presumption to perform the service.

This presumption of self-audit also applies to financial information systems design and implementation; appraisals, valuations, fairness opinions or contribution-in-kind reports; actuarial services; and internal audit outsourcing.

May my firm provide internal audit services to an attest client?

To perform [internal audit assistance](#) for an *attest client* and maintain *independence*, your *firm* may not, in effect, manage the internal audit activities of the *attest client*. For example, you and your *firm* may not do any of the following:

- Perform ongoing evaluations or control activities that affect the execution of transactions (for example, reviewing *loan* originations as part of the *attest client's* approval process or reviewing customer credit information as part of the customer's sales authorization process) or ensure that transactions are properly executed or accounted for, or both, or perform routine activities in connection with the *attest client's* operating or production processes that are equivalent to those of an ongoing compliance or quality control function.
- Perform separate evaluations on the effectiveness of a significant control such that the *member* is, in effect, performing routine operations that are built into the *attest client's* business process.
- Have *attest client* management rely on the member's work as the primary basis for the *attest client's* assertions on the design or operating effectiveness of internal controls.
- Determine which, if any, recommendations for improving the internal control system should be implemented.
- Report to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function.
- Approve or be responsible for the overall internal audit work plan, including the determination of the internal audit risk and scope, project priorities and frequency of performance of audit procedures.

- Be connected with the *attest client* as an employee or in any capacity equivalent to a *member* of management (for example, being listed as an employee in the *attest client's* directories or other *attest client* publications; permitting himself or herself to be referred to by title or description as supervising or being in charge of the *attest client's* internal audit function; or using the *attest client's* letterhead or internal correspondence forms in communications).

To maintain independence, the *attest client* must do the following:

- Designate an individual or individuals who possess suitable skill, knowledge and experience, preferably within senior management, to oversee the internal audit function.
- Determine the scope, risk, and frequency of internal audit activities, including those the *member* will perform in providing the services.
- Evaluate the findings and results of internal audit activities, including those the *member* will perform in providing the services.
- Evaluate the adequacy of the audit procedures performed and findings resulting from the performance of those procedures.

Internal audit services provided to an SEC audit client impair independence unless it is reasonable to conclude that the results of the auditor's services would not be subject to the firm's audit procedures.

Note: For entities regulated by the FDIC or other banking agencies, see [FDIC Interagency policy statement](#) on the internal audit function and its outsourcing.

May my firm provide valuation, appraisal or actuarial services to an attest client?

Your *firm* may not provide valuation, appraisal or actuarial services to an attest client if:

- the results of the service would be material to the *attest client's financial statements*, or
- the service involves a significant amount of subjectivity.

For instance, your *firm* may not perform a valuation in connection with a business combination that would have a material effect on an *attest client's financial statements* because that service involves significant subjectivity (for example, setting the assumptions and selecting and applying the valuation methodology).

The following two limited exceptions apply to this rule:

1. Valuation, appraisal or actuarial services performed for nonfinancial statement purposes may be provided if *safeguards* from the "General Requirements for Performing Nonattest Services" interpretation are met. (For example, the *attest client* assigns an individual who is in a position to make an informed judgment on, and accept responsibility for, the results of the service to oversee the service.)
2. Your *firm* may provide an actuarial valuation of an *attest client's* pension or postretirement liabilities because the results of the valuation would be reasonably consistent, regardless of who performs the valuation.

The SEC prohibits your firm from providing valuation, appraisal or any service involving a fairness opinion or contribution-in-kind report¹⁹ to an SEC audit client unless it is reasonable to conclude that your firm would not audit the results of those services.

The staff of the Professional Ethics Division issued nonauthoritative guidance (in the form of an [FAQ](#) document) on the question of whether *members* could assist an *attest client* in applying FASB Accounting Standards Codification (ASC) 805, Business Combinations, or FASB ASC 350, Intangibles – Goodwill and Other, while maintaining independence. Specifically, the FAQ document addresses whether the following services would be considered to impair independence:

- Providing the *attest client* advice on valuation methodologies and assumptions needed to perform the valuation.
- Providing advice on valuation templates, software or other tools that allow the *attest client* to determine an appropriate value for acquired assets, goodwill, contingent consideration and so on.

May my firm provide investment advisory services to an attest client?

Here are examples of what you and your *firm* may do under the AICPA rules, provided the *safeguards* from the "General Requirements for Performing Nonattest Services" interpretation are met:

- Make recommendations to an *attest client* about the allocation of funds to various asset classes.
- Analyze investment performance.

The AICPA rules indicate that you and your *firm* may not do the following:

- Make investment decisions for the *attest client*.
- Execute investment transactions.
- Take custody of an *attest client's* assets.

¹⁹ Per the SEC, fairness opinions and contribution-in-kind reports are opinions and reports in which your firm provides its opinion on the adequacy of consideration in a transaction.

May my firm design or implement an information system or provide network maintenance services for an attest client?

Effective Jan. 1, 2023, your *firm* may not design or develop an *attest client's* financial information system. In addition, it is prohibited to perform ongoing functions, processes or activities that involve management functions (for example, operating an *attest client's* network, supervising client personnel, and operating or managing the *attest client's* information technology help desk).

As long as all the requirements of the "Nonattest Services" subtopic are met, your *firm* may install and configure a commercial off-the-shelf financial information system package for an *attest client*, including helping the *attest client* set up a chart of accounts and *financial statement* format. However, your *firm* may not customize such software (that is, modify or enhance the features and functions in ways that go beyond the options provided by the third-party vendor).

Your *firm* may perform network maintenance, such as updating virus protection and applying certain updates and patches not developed by your *firm*, as long as the *firm* doesn't have the responsibility to perform ongoing maintenance. Your *firm* also may provide advice, training or instruction to the *attest client's* employees on how to use an information system. Your *firm* may not, however, supervise the *attest client's* employees in their day-to-day use of the system because that activity is a management responsibility.

Your *firm* is not precluded from designing, developing, installing or implementing an information system that is unrelated to the *attest client's* financial information system as long as the requirements of the "Nonattest Services" subtopic are met.²⁰

Finally, your *firm* is precluded from performing interface services and data translation services for off-the-shelf financial information systems (unless the *firm* uses a third-party application for the services and the *firm* is not developing code for the application to work).

SEC rules prohibit your firm from providing any service related to an SEC audit client's financial information system design or implementation unless the results of your firm's services would not be subject to audit procedures during an audit of the client's financial statements. Your firm may do either of the following:

- Evaluate internal controls of a financial information system as it is being designed, implemented, or operated for the client by another service provider.
- Make recommendations on internal control matters to management in connection with a system design and implementation project being performed by another service provider.

Note: If your audit client is an issuer, your firm must obtain preapproval for these and other internal control-related services, in accordance with PCAOB Rule 3525, *Audit Committee Pre-Approval of Non-audit Services Related to Internal Control Over Financial Reporting*.

²⁰ [Frequently asked questions](#) are available to assist members in understanding and implementing the IT services provisions.

May my firm provide hosting services to an attest client?

Providing hosting services to an *attest client* after June 30, 2019, will impair your *independence* because you would be maintaining internal control over the *attest client's* data or records. Hosting services involve (1) acting as the sole host of an *attest client's* financial or nonfinancial information system; (2) taking custody of or storing an *attest client's* data or records whereby the *attest client's* data or records would be incomplete and they would need to come to you to get that information; or (3) providing the *attest client* with electronic security or backup services for its data or records. Examples of hosting services include housing an *attest client's* website, keeping your *attest client's* general ledger on your servers or servers leased by your *firm* or being your *attest client's* disaster recovery provider.

Your *firm* will not be considered to be providing hosting services just because it keeps copies of an *attest client's* data or records to support a service you provided, nor would you be providing hosting services if you use general ledger software to facilitate the delivery of bookkeeping services if you and the client maintain separate instances of the software on your respective servers and you just pass updated financial information to the *attest client*. You would also not be considered to be providing hosting services if the *attest client* retains a third-party service provider to maintain its general ledger in a cloud-based platform and grants you access to this software to provide bookkeeping services. If you use a portal to electronically exchange data or records, to avoid inadvertently providing hosting services, it is recommended that you terminate access to the data or records in the portal within a reasonable period of time after the conclusion of the engagement.

Another way to think about hosting services is to ask: If the client were to end the professional relationship with your *firm* and engage another *firm* to provide the same services, would the former client need to come back to you in order for its books and records to be complete? If the answer is no, then your *firm* is not providing hosting services.

If the answer is yes, then you may be providing hosting services. Additional examples are available in the "[Hosting Services](#)" interpretation (ET sec. 1.295.143). Also, the staff of the Professional Ethics Division issued nonauthoritative guidance (in the form of an [FAQ](#) document) that includes specific nonattest services questions and answers (including hosting).

For additional information, listen to [episode 3](#), [episode 4](#) and [episode 12](#) of the "Ethically Speaking" podcast.

May my firm provide an attest client with training services?

The nonattest service [FAQ](#) document addresses the question of whether a *member's independence* would be *impaired* if the *member* provided training to an *attest client* that is implementing changes to its financial reporting system or process. The FAQ concludes that a *member's independence* would not be *impaired* if the *attest client* personnel are provided with a general understanding of the financial reporting system or process. It goes on to explain that if *attest client* personnel already have a general understanding, the *member* may provide more specific training to *attest client* personnel on how the system or process applies to the *attest client's* specific circumstances. It cautions *members* that they should ensure that the training does not involve supervising *attest client* personnel in either the implementation or daily operation of the financial system or process or result in the *member* performing other management responsibilities, such as making operational decisions or implementing the internal controls necessary for the system or process to run effectively.

May my firm manage a project for an attest client?

Managing an *attest client* project, including deciding whether to proceed with a project, is considered a management responsibility. Accordingly, if a *member* accepts responsibility for management of an *attest client's* project, then the *member's independence* would be *impaired* even if the project did not affect the *attest client's financial statements*.

However, if the *member's* services are limited to providing assistance, advice, suggestions or recommendations regarding matters that are within the *member's* areas of knowledge or experience, *independence* would not be *impaired*.

May my firm assist an attest client with implementing a new accounting standard?

New accounting standards may require changes that are difficult for your *attest clients* to understand, and as such, correspondence and discussions with clients may go beyond the routine activities involved when providing attest services. Some examples of routine activities include discussions with the *attest client* about management's selection and application of accounting standards or policies and *financial statement* disclosure requirements; the appropriateness of methods used in determining accounting and financial reporting; adjusting entries that the *member* has prepared or proposed for management's consideration; or the form or content of the *financial statements*.

When assessing *independence* and assisting an *attest client* with implementing a new standard, you would want to consider whether the *firm's* involvement becomes so extensive that the *firm* may need to consider a separate service subject to the requirements for

nonattest services. Some considerations may include the significance of the new accounting standard, the extent of the difference from the previous standard, or the complexity of the new standard. If your *firm* currently provides allowable nonattest services, you should also consider the cumulative effect on *independence* when providing multiple nonattest services. Before agreeing to perform nonattest services, you should evaluate whether the performance of multiple nonattest services by your *firm* in aggregate would create a significant threat to the *firm's independence* that cannot be reduced to an *acceptable level* with the application of *safeguards*.

Your *firm* should also be cautious of crossing the line that may lead to providing prohibited nonattest services. Your *firm* may explain the steps needed to achieve the principles of the new standard, but the *attest client* must accept responsibility for the work performed to implement the standard. Management participation and self-review threats seem to be the most prevalent threats when assisting clients with implementing new accounting standards, but there could be others. Your *firm* should apply the *safeguards* in the "General Requirements for Performing Nonattest Services" interpretation.

For additional information, listen to [episode 9](#) and [episode 10](#) of the "Ethically Speaking" podcast.

What about cybersecurity services?

Firms are often asked to assist their clients with cybersecurity services. This type of service is often considered to be an advisory service, depending on the specifics of the engagement. Practitioners would need to follow the guidance in the "[Advisory Services](#)" interpretation (ET sec. 1.295.105). The staff of the Professional Ethics Division issued nonauthoritative guidance (in the form of an [FAQ](#) document) that includes specific nonattest services questions and answers (including cybersecurity services).

Chapter 9

Breach of an independence interpretation

What do I do if I'm not in compliance with an independence interpretation?

Before resigning from an *attest engagement*, you may want to assess the breach under the “[Breach of an Independence Interpretation](#)” interpretation (ET sec. 1.298.010). However, if you choose to evaluate the breach using this interpretation and conclude that the consequences of the breach were satisfactorily addressed and do not resign, you should be prepared to justify such conclusion because use of the interpretation will not preclude you from an investigation or enforcement action by the AICPA.

In order to use the interpretation, your *firm* must be compliant with QC section 10, *A Firm's System of Quality Control*,²¹ which requires the *member's firm* to have established policies and procedures designed to provide it with reasonable assurance that the *firm*, its personnel, and, when applicable, others subject to *independence* requirements maintain *independence* when required. If your *firm* is not compliant with QC section 10, you would not be able to address the consequences of the breach under this interpretation.

If your *firm* is compliant with QC section 10, but a breach still occurs that results in the *attest engagement team's* integrity, objectivity, and professional skepticism being compromised the *threat to independence* would be so significant that you could not take any actions to satisfactorily address the consequences of the breach. In addition, there is a rebuttable presumption that the *attest engagement team's* integrity, objectivity and professional skepticism are compromised and that you cannot take any actions to satisfactorily address the consequence of the breach when the lead *attest engagement* partner or an *individual in a position to influence the attest engagement* either (1) committed the breach or (2) knows of a breach and fails to ensure the breach is promptly communicated to or known by an appropriate individual within the *firm*.

If your *firm* is compliant with QC section 10 and the *attest engagement team's* integrity, objectivity and professional skepticism are not compromised, then you could evaluate the breach using the interpretation to determine whether you can address the breach and perform the *attest engagement*. If you determine that you can satisfactorily address the breach, the interpretation calls for certain steps to be taken, including communicating with *those charged with governance* and documenting the breach, the action taken, key decisions made and all the matters discussed with *those charged with governance*, and any discussions with a professional body, relevant regulator or oversight authority.

²¹ QC sections can be found in AICPA *Professional Standards*.

Chapter 10

Fee issues

What types of fee arrangements between my firm and an attest client are prohibited?

Two types of fee arrangements – contingent fees and commissions – are prohibited if the arrangement involves certain *attest clients*, even though the fee is not related to an attest service.

A *contingent fee* is an arrangement whereby no fee is charged unless a specified result is attained or the amount of the fee depends on the results of your *firm's* services.

The following are examples of contingent fees:

- Receiving a finder's fee for helping a *client* locate a buyer for one of your client's assets, or
- Performing a consulting engagement to decrease a *client's* operating costs and the fee is based on a percentage of the cost reduction the *client* achieves as a result of your service.

The following are exceptions:

- Fees fixed by a court or other public authority;
- In tax matters, fees based on the results of judicial proceedings or the findings of governmental agencies.

A *commission* is any compensation paid to you or your *firm* for recommending or referring a third-party's product or service to a *client* or for recommending or referring a *client's* product or service to a third party.

The following are examples of commissions:

- If you or your *firm* refers a *client* to a financial planning *firm* that pays you a commission for the referral.

- If you or your *firm* sells accounting software to a *client* and receives a percentage of the sales price (a commission) from a software company.
- If you or your *firm* refers a nonclient to an insurance company *client* that pays you a percentage of any premiums subsequently received (a commission) from the nonclient.

Commissions or contingent fee arrangements with a *client* are not allowed if your *firm* also provides one of the following services to the *client*:

- An audit of *financial statements*.
- A review of financial statements.
- A compilation of *financial statements* if a third party (for example, a bank or an investor) will rely on the *financial statements*, and the report does not disclose a lack of independence.
- An examination of prospective *financial statements*.

You may have commission and contingent fee arrangements with persons associated with a *client*, such as officers, directors and principal shareholders, or with a benefit plan that is sponsored by a *client* (that is, the plan itself is not an *attest client*). For example, you may receive a commission from a nonclient insurer if you refer an officer of an *attest client* to the insurer and the officer purchases a policy. Even though this situation is permitted, you are still required to tell the officer in writing that you received a commission for making the referral.

Note: *State boards of accountancy and state societies* may have more restrictive regulations regarding fee arrangements, as well as specific disclosure requirements.

PCAOB Rule 3521, *Contingent Fees*,²² prohibits you and your firm from providing any service or product to an SEC audit client for a contingent fee or commission or receiving from the audit client, directly or indirectly, a contingent fee or commission. Although the PCAOB's definition of *contingent fees* was adapted from the SEC's definition, the PCAOB rule eliminates the exception for fees in tax matters if determined based on the results of judicial proceedings or the findings of governmental agencies. In addition, the PCAOB rule specifically indicates that the contingent fees cannot be received directly or indirectly from an issuer that is an audit client.

When are referral fees permitted?

Paragraph .04 of the "[Commissions and Referral Fees Rule](#)" (ET sec. 1.520.001) provides an exception for referral fees for recommending or referring a CPA's services to another person or entity. That is, you may receive a fee for referring a CPA's services to any person or entity, or if you are a CPA, you may pay a fee to obtain a *client*. You must inform the *client* in writing if you receive or pay a referral fee.

The SEC does not have any specific guidance on referral fees, so the general standard and four guiding principles would be applicable.

Does value pricing impair my independence?

Value pricing is not prohibited by the code and would not impair your independence. Value pricing is a fixed fee determined and agreed to by the client based on the value or complexity of the service being provided to your *client*. When determining the fees, you may want to consider the complexity and scope of the service, whether your *firm* can provide the service for the fee being proposed, how the fee proposal will be received by the *client* and how you will explain the value of the service compared to the fee to the *client*.

Is independence affected when an attest client owes the firm fees for professional services the firm has already provided?

If an *attest client* owes your *firm* fees for services rendered more than one year ago, your firm's independence is considered *impaired*. It does not matter whether the fees are related to attest services; what matters is that the *attest client* has an outstanding debt with the *firm*. This is the case even if the *attest client* has given you a note receivable for these fees.

The SEC staff FAQ document *Office of the Chief Accountant: Application of the Commission's Rules on Auditor Independence – Frequently Asked Questions*, updated in June 2019, includes 11 questions related to nonaudit services provisions of the rule. FAQ No. 2 under section A addresses the question of whether unpaid prior professional fees affect auditor independence. The SEC generally expects payment of past-due fees before an engagement has begun, although a short-term payment plan may be accepted if the SEC audit client has committed to pay the balance in full before the current year report is issued.

²² PCAOB rules can be found in AICPA *PCAOB Standards and Related Rules*.

Does being compensated for selling certain services to clients affect my independence?

The AICPA rules do not specifically address this issue.

The SEC prohibits audit partners from being directly compensated for selling nonattest services to issuers that are audit clients. The SEC believes that such financial incentives could threaten an audit partner's objectivity and that the appearance of independence could be affected by such compensation arrangements.²³

The rule does not prevent an audit partner from sharing in profits of the audit practice or overall firm. It also does not preclude the firm from evaluating a partner based on factors related to the sale of nonaudit services to issuers (for example, the complexity of engagements or overall management of audit or nonaudit engagements).

Does it matter if a significant proportion of my firm's fees come from a particular attest client?

Paragraph .16 of the "[Conceptual Framework for Independence](#)" interpretation (ET sec. 1.210.010) states that a self-interest threat may exist if a "member or his or her firm relies excessively on revenue from a single attest client." In addition, the "[Integrity and Objectivity Rule](#)" (ET sec. 1.100.001) and the "[Objectivity and Independence](#)" principle (ET sec. 0.300.050) discuss in broad terms that *members* should be alert for relationships that could diminish their objectivity and independence in performing attest services. The significance of a *client* to a *member* (or the *member's firm*) – measured in terms of fees, status or other factors – may diminish a *member's* ability to be objective and maintain *independence* when performing attest services.

To address this issue, *firms* should consider implementing the following policies and procedures to identify and monitor significant *clients* to help mitigate possible *threats* to a *member's* objectivity and independence:

- a. Policies and procedures for identifying and monitoring significant *client* relationships, including the following:
 - i. Considering *client* significance in the planning stage of the engagement.
 - ii. Basing the consideration of *client* significance on firm-specific criteria or factors that are applied on a facts-and-circumstances basis (see the following section, "[Factors to consider in identifying significant attest clients](#)").
 - iii. Periodically monitoring the relationship. What constitutes "periodic" is a matter of judgment, but assessments of client significance that are performed at least annually can be effective in monitoring the relationship. During the course of such a review, a *client* previously deemed to be significant may cease to be significant. Likewise, *clients* not identified as significant could become significant whenever factors the *firm* considers relevant for identifying significant *clients* arise. (For example, additional services are contemplated.)
- b. Policies and procedures for helping mitigate possible *threats* to *independence* and objectivity, including the following:
 - i. Assigning a second (or concurring) review *partner* who is not otherwise associated with the engagement and who practices in a different *office* than those who perform the *attest engagement*.
 - ii. Subjecting the assignment of engagement personnel to approval by another partner or *manager*.
 - iii. Periodically rotating engagement *partners*.
 - iv. Subjecting significant *client attest engagements* to internal firm-monitoring procedures.

²³ Accounting firms with 10 or fewer partners and 5 or fewer audit clients that are issuers, as defined by the SEC, are exempt from this rule.

- v. Subjecting significant *client attest engagements* to pre-issuance or post-issuance reviews or to the *firm's* external peer review process.

The most effective safeguards a *firm* can employ will vary significantly, depending on the size of the *firm*; the way the *firm* is structured (for example, whether highly centralized or departmentalized); and other factors. For example, smaller *firms* (particularly those with one *office*) tend to be simpler and less departmentalized than larger *firms*. Generally, their processes will be less formal and involve fewer people than those of larger *firms*. Further, the *firms'* managing *partners* may engage in frequent and direct communications with the *firms'* *partners* and professional staff on *attest client* matters and be personally involved in staff assignments. Larger *firms* draw from a sizable and diverse talent pool. In those *firms*, *partners* who are not affiliated with the engagement (or *client service office* or business unit) can choose a second (or concurring) review *partner* from outside the *office* to perform the *attest engagement*. Midsize or regional *firms* may have aspects of both their smaller and larger counterparts, such as combining the ability to choose second review *partners* from an *office* other than the *attest client service office* while maintaining a relatively close connection to specific *attest client* relationships.

Factors to consider in identifying significant attest clients

The following are qualitative and quantitative factors that can reveal a significant *attest client*:

- The size of the *attest client*, in terms of the percentage of fees or the dollar amount of fees versus total revenue of the engagement *partner, office* or practice unit of the *firm*²⁴

- The significance of the *client* to the engagement *partner, office* or practice unit of the *firm* in light of the following:
 - The amount of time the *partner, office* or practice unit devotes to the engagement.
 - The effect on the *partner's* stature within the *firm* due to the *partner's* relationships with the *attest client*.
 - The manner in which the *partner, office* or practice unit is compensated.
 - The effect that losing the *attest client* would have on the *partner, office* or practice unit.
- The importance of the *attest client* to the *firm's* growth strategies. (For example, the *firm* is trying to gain entry into a particular industry.)
- The stature of the *attest client*, which may enhance the *firm's* stature. (For example, the *firm* is trying to gain entry into a particular industry.)
- Whether the *firm* also provides services to related parties (For example, the *firm* also provides [professional services](#) to [affiliates](#) or owners of the *attest client*.)
- Whether the engagement is recurring.

Judgment is necessary to determine whether an *attest client* is significant to the *firm, office, practice unit* or *partner* of the *firm*. *Firms* will vary considerably in terms of the degree to which they consider some factors to be more pertinent than others. Gauges that relate to each relevant level within a *firm* (for example, *firm, geographic region, office* or practice unit) may be useful but will likely be different for various levels within the *firm*.

In general, if a *firm* derives more than 15% of its total revenues from one SEC audit client or group of related clients, independence may be impaired because this may cause the *firm* to be overly dependent on the client or group of related clients.

²⁴ Assessing an *attest client's* significance at the business or practice unit level may be a more meaningful measure for *firms* that structure their practices along industry lines (such as health care or financial services).

Chapter 11

Further assistance

Where can I find further assistance with my independence questions?

This guide does not address many subjects included in the AICPA rules. Readers are encouraged to view the online version of the AICPA [Code of Professional Conduct](#) (the code).

In addition, readers should refer to the [“Conceptual Framework for Independence”](#) interpretation (ET sec. 1.210.010) in evaluating whether a specific circumstance that is not addressed in the code would pose an unacceptable threat to independence.

As specific services and situations arise in practice, refer to the independence literature and consult with those responsible for independence in your firm. If you need further assistance researching your question, contact one of the following organizations for guidance.

AICPA resources

- Refer to the [AICPA Professional Ethics Division’s standard-setting activities](#) for details regarding current and past projects.
- For questions related to understanding the nonattest services rules, consult the [Background and Basis for Conclusions](#) document.
- For questions related to applying the nonattest services rules, consult [Frequently Asked Questions: Performance of Nonattest Services](#). Topics include hosting services, bookkeeping services, and suitable skill, knowledge and/or experience.
- For independence inquiries by phone, call 888.777.7077. Send email inquiries to ethics@aicpa.org.
- The AICPA interactive multimedia course on [independence](#) teaches the AICPA and the SEC independence rules and qualifies for four hours of continuing professional education credits.
- The [CAQ Alert 2021-02: Amendments to SEC Independence Rules](#)

- Toolkits to assist members with applying the “Conceptual Framework for Independence” and nonattest services guidance
 - [Conceptual Framework Toolkit for Independence](#)
 - [Nonattest Services Toolkit](#)
- The [2011 Yellow Book Independence – Nonaudit Services Documentation Practice Aid](#) will assist auditors performing audits in accordance with the 2011 revision to *Government Auditing Standards* (the 2011 Yellow Book) issued by the Government Accountability Office (GAO) in identifying and evaluating threats to independence for nonaudit services when considering whether to provide a nonaudit service. It will also assist auditors in applying the conceptual framework for independence contained in the 2011 Yellow Book (Yellow Book Conceptual Framework) and in complying with the Yellow Book’s independence documentation requirements. In late summer 2020, the Government Audit Quality Center (GAQC) released a Yellow Book independence documentation practice aid updated for the 2018 Yellow Book on the [GAQC Resources](#) page.
- Practice aid [Understanding circumstances that may compromise your integrity and objectivity](#)
- [“Ethically Speaking”](#) podcast. Topics covered include definition of an office, nonattest services and hosting services.

SEC resources

- Consult the [SEC’s February 2001 Rules Release](#) for changes related to auditor independence requirements.
- Consult the [SEC’s January 2003 Rules Release](#) for changes related to auditor independence with respect to nonaudit services, employment relationships, taxes, partner rotation and communications with audit committees.
- Consult the [SEC’s October 2019 Rules Release](#) for changes related to auditor independence with respect to certain loans.

- Consult the [SEC's October 2020 Rules Release](#) for changes related to the relationships or services that are more likely to pose threats to an auditor's objectivity and impartiality, definition of affiliate, investment company complex, amendments to business relationships, mergers and acquisitions.
- Information for accountants, including information about independence, may be found online at the [Office of the Chief Accountant's website](#).
- [Independence reference materials](#) can be found on the SEC website, including two sets of FAQs.
- [Contact the SEC](#) via U.S. Securities and Exchange Commission, Office of the Chief Accountant, 100 F Street, NE, Washington, DC 20549 (mail); 202.551.5300 (phone); 202.772.9252 (fax)

PCAOB resources

- The [PCAOB website](#) contains its [rules and standards](#).

GAO resources

- Obtain the GAO Yellow Book requirements at "[Resources for the Auditing and Accountability Community](#)."
- Direct inquiries to 202.512.9535 (phone) or yellowbook@gao.gov.

Department of Labor resources

- Refer to [DOL Regulation 2509.75-9](#), *Interpretive Bulletin Relating to Guidelines on Independence of Accountant Retained by Employee Benefit Plan*.
- Direct inquiries to 1.866.4.U.S.A.DOL.

Banking regulators' resources

- Review FDIC regulations in "Annual Independent Audits and Reporting Requirements" ([Title 12 U.S. Code of Federal Regulations Part 363](#)).
- The following organizations make up the Federal Financial Institutions Examination Council (FFIEC): the Board of Governors of the Federal Reserve System, the FDIC, the National Credit Union Administration, and the Office of the Comptroller of the Currency. The FFIEC issues financial institution letters (FILs) that are addressed to the CEOs of the financial institutions on the FIL distribution list, generally FDIC-supervised institutions. FILs may announce new regulations and policies, new FDIC publications, and a variety of other matters of principal interest to those responsible for operating a bank or savings association. FILs have addressed auditor conduct (for example, internal audit outsourcing and use of indemnification clauses in engagement letters) in recent years and may apply to both public and nonpublic institutions. [Additional information](#) is available.

International Federation of Accountants resources

- Information about the [International Ethics Standards Board for Accountants](#) (IESBA) can be found on the International Federation of Accountants' website.
- View the IESBA's [Handbook of the Code of Ethics for Professional Accountants](#).

National Association of Insurance Commissioners resources

- The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews and coordinate their regulatory oversight. NAIC staff support these efforts and represent the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the United States.
- The [NAIC](#) website.
- The NAIC developed a [model rule](#). Section 7 outlines the model rule's independence requirements. The requirements of individual state laws regulations, and administrative rules take precedence and may differ from the guidance provided by the NAIC. Accordingly, auditors of insurance enterprises should review state laws, regulations and administrative rules to determine what has been approved in each state.



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