



Real-Life Ethics for Today's Accountant

Francis X. Ryan

Course # 4140620, Version 1703, 4 CPE Credits

your self-study.
your way.

Course CPE Information

Course Expiration Date

Per AICPA and NASBA Standards (S9-06), QAS Self-Study courses must include an expiration date that is *no longer than one year from the date of purchase or enrollment*.

Field of Study

Regulatory Ethics/Behavioral Ethics. Some state boards may count credits under different categories—check with your state board for more information.

Course Level

Basic.

Prerequisites

There are no prerequisites.

Advance Preparation

None.

Course Description

One of the CPA's most important responsibilities is in understanding how critically important ethical behavior is to one another, our customers, and to the public. This course discusses the basic tenants of ethical behavior and uses case studies to explore ethical dilemmas in various companies and organizations. The instructors provide standards of conduct and then apply those standards to the real world.

*Please note that this course covers information also found in *Revised CPA Ethics Code: Challenges You May Soon Face*

Course content and learning objectives © Copyright Francis X. Ryan 2013
Review questions and qualified assessment © Copyright Western CPE 2017

Publication/Revision Date

March 2017

Instructional Design

This Self-Study course is designed to lead you through a learning process using instructional methods that will help you achieve the stated learning objectives. You will be provided with course objectives and presented with comprehensive information and facts demonstrated in exhibits and/or case studies. Review questions will allow you to check your understanding of the material, and a qualified assessment will test your mastery of the course.

Please familiarize yourself with the following instructional features to ensure your success in achieving the learning objectives.

Course CPE Information

The preceding section, “Course CPE Information,” details important information regarding CPE. If you skipped over that section, please go back and review the information now to ensure you are prepared to complete this course successfully.

Table of Contents

The table of contents allows you to quickly navigate to specific sections of the course.

Learning Objectives and Content

Learning objectives clearly define the knowledge, skills, or abilities you will gain by completing the course. Throughout the course content, you will find various instructional methods to help you achieve the learning objectives, such as examples, case studies, charts, diagrams, and explanations. Please pay special attention to these instructional methods, as they will help you achieve the stated learning objectives.

Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

Review Question Answers and Rationales

Review question answer choices are accompanied by unique, logical reasoning (rationales) as to why an answer is correct or incorrect. Evaluative feedback to incorrect responses and reinforcement feedback to correct responses are both provided.

Glossary

The glossary defines key terms. Please review the definition of any words you are not familiar with.

Index

The index allows you to quickly locate key terms or concepts as you progress through the instructional material.

Qualified Assessment

Qualified assessments measure (1) the extent to which the learning objectives have been met and (2) that you have gained the knowledge, skills, or abilities clearly defined by the learning objectives for each section of the course. Unless otherwise noted, you are required to earn a minimum score of 70% to pass a course. If you do not pass on your first attempt, please review the learning objectives, instructional materials, and review questions and answers before attempting to retake the qualified assessment to ensure all learning objectives have been successfully completed.

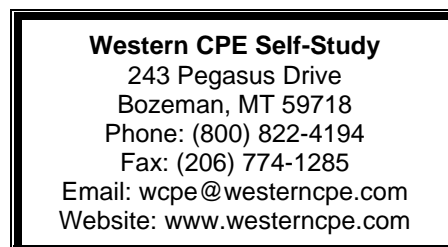
Answer Sheet

Feel free to fill the Answer Sheet out as you go over the course. To enter your answers online, follow these steps:

1. Go to www.westerncpe.com.
2. Log in with your username and password.
3. At the top right side of your screen, hover over “My Account” and click “My CPE.”
4. Click on the big orange button that says “View All Courses.”
5. Click on the appropriate course title.
6. Click on the blue wording that says “Qualified Assessment.”
7. Click on “Attempt assessment now.”

Evaluation

Upon successful completion of your online assessment, we ask that you complete an online course evaluation. Your feedback is a vital component in our future course development.



Notice: This publication is designed to provide accurate information in regard to the subject matter covered. It is sold with the understanding that neither the author, the publisher, nor any other individual involved in its distribution is engaged in rendering legal, accounting, or other professional advice and assumes no liability in connection with its use. Because regulations, laws, and other professional guidance are constantly changing, a professional should be consulted should you require legal or other expert advice. Information is current at the time of printing.

Master Table of Contents

Course CPE Information	i
Instructional Design.....	ii
Master Table of Contents.....	iv
OnDemand Webcast Table of Contents.....	v
Learning Objectives.....	1
Course Materials.....	2
PowerPoint Slides.....	241
Review Questions.....	274
Section 1.....	274
Section 2.....	274
Section 3.....	275
Section 4.....	275
Review Question Answers and Rationales.....	277
Section 1.....	277
Section 2.....	278
Section 3.....	279
Section 4.....	280
Glossary	282
Index.....	283
Qualified Assessment	284
Answer Sheet	288
Course Evaluation.....	289

OnDemand Webcast Table of Contents

Section 1

Critical thinking errors	1–2:41
Critical thinking.org.....	1–2:46
Seminal event.....	1–3:53
Code of professional responsibility	1–4:46
Subordination of judgment.....	1–5:28
Orderly function of commerce	1–5:44
Resources	1–7:47
AICPA Code of Professional Conduct.....	1–8:24
Legally mandated.....	1–8:49
Ethically required.....	1–8:52
Reportable event	1–10:34
What is ethics?.....	1–17:00
Core beliefs	1–17:50
Ethics	1–20:07
Moral compass	1–20:29
Professional skepticism.....	1–24:40
Arthur Andersen	1–25:05
Business ethics.....	1–27:24
Fraud triangle.....	1–30:16
Critical thinking errors	1–41:15
Appeal to pity	1–42:22
Argumentum ad populum	1–44:20
Argumentum ad hominem	1:45:25
Reductio ad absurdum.....	1–46:45
Mollification	1–49:47
Argument from authority	1:50:40
Gambler’s fallacy.....	1–52:01
Sunk cost fallacy	1–58:26
Appeals to tradition.....	1–54:37
Appeals to the new.....	1–54:38

Section 2

Public	2–8:26
--------------	--------

Ethics decision tree	2-11:53
Rule of trust	2-13:25
Independence	2-13:47
Objectivity	2-23:43
Integrity	2-29:33
Due care	2-30:40
Letter of required corrective action.....	3-4:53
Joint ethics enforcement process.....	2-44:59
Ethics codification process.....	2-36:07
Initiation of ethics enforcement process.....	2-46:00
Opening letter	2-47:40
Section 3	
Litigation deferral option	3-2:00
Results of ethics enforcement process	3-4:41
Joint trial board	3-7:51
Admonished.....	3-12:55
False advertising	3-13:28
Automatic discipline	3-17:23
CPA Vision	3-26:07
Triangle of trust.....	3-26:55
Root cause analysis.....	3-38:39
Section 4	
Competencies.....	4-6:12
Causes of ethical dilemmas.....	4-27:54
Dishonesty	4-29:27
Challenges.....	4-38:43
Help sources.....	4-47:52
Personal liability insurance	4-49:02

Learning Objectives

Upon successful completion of this course, participants will be able to:

- Cite terminology relating to core beliefs and the fraud triangle
- Identify critical thinking errors that call for professional skepticism
- Identify parties to whom a CPA must answer
- Identify situations where a CPA may face an ethical conflict and how he or she should respond
- Cite the core values of CPAs and what they entail
- Cite important dates related to the revision of the AICPA Code of Professional Conduct
- Cite the CPA vision statement
- Identify a seminal event and explain why it is important
- Identify traits that may lead to ethical breaches and describe people who may commit them
- Identify where a CPA should report ethical violations or concerns

EXPOSURE DRAFT

AICPA PROFESSIONAL ETHICS DIVISION

PROPOSED REVISED

AICPA CODE OF PROFESSIONAL CONDUCT

April 15, 2013

Comments are requested by August 15, 2013

Prepared by the AICPA Professional Ethics Executive Committee for comments from persons interested in independence, behavioral, and technical standards matters.

Comments should be addressed to Lisa A. Snyder, director of the Professional Ethics Division, at lsnyder@aicpa.org.

Copyright © 2013 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please e-mail copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

April 15, 2013

This exposure draft contains an important proposal for review and comment by the AICPA's membership and other interested parties regarding a revised AICPA Code of Professional Conduct (AICPA Code) for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the revised AICPA Code are included in this exposure draft.

After the exposure period is concluded and PEEC has evaluated the comments, PEEC may decide to adopt and publish the revised AICPA Code.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by August 15, 2013. All written replies to this exposure draft will become part of the public record of the AICPA.

All comments received will be considered by PEEC during its subsequent open meetings.

Please send comments to Lisa A. Snyder, director of the Professional Ethics Division, via e-mail at lsnyder@aicpa.org.

Sincerely,

Wes Williams, *Chair*
AICPA Professional Ethics Executive Committee

Lisa A. Snyder, *Director*
AICPA Professional Ethics Division

Professional Ethics Executive Committee (2012–2013)

Wes Williams, *Chair*

Corey Arvizu
Martin J. Benison
Samuel L. Burke
Cassandra A. Camp
Tom Campbell
John F. Dailey, Jr.
Robert E. Denham
Raymond Johnson
Bruce J. Jorth
Brian S. Lynch

John Malahoski
Linda J. McAninch
Jarold Mittleider
Nancy Mutscher
Mary Louise Nunes
Ray Roberts
Michael Schmitz
Edward Schultz
Lawrence I. Shapiro

Codification Oversight Task Force

Wes Williams, *Chair*

Alan Steiger

Catherine R. Allen
Cassandra A. Camp
Linda J. McAninch
Raymond Johnson
Robert E. Denham

Gaylen Hansen (*Task Force Member 2008 – 2012*)

Ethics Division Project Staff

Lisa A. Snyder, CPA, *Director*

Ellen T. Gorla, CPA, *Senior Manager— Independence & Special Projects*

Shannon L. Ziemba, CPA, *Technical Manager*

Virgil Webb, *Assistant General Counsel*

AICPA Ethics Codification Project State Board Advisory Group

Daniel Sweetwood, *Executive Director, NE*

Edith Steele, *Former Executive Director, OK*

Kent Bailey, *Executive Director, OR*

Mark H. Crocker, *Member of TN Board*

Rona Shor, *Member of NY Board*

Susan Harris, *Executive Director MS*

Suzanne Jolicoeur, *AICPA Sr. Manager, State Regulator Outreach*

Special thanks to all the individuals, firms, and organizations that provided their valuable expertise, time, and resources to the development of this exposure draft.

Explanation for the Proposed Revised AICPA Code of Professional Conduct

The AICPA's Professional Ethics Executive Committee (PEEC) is proposing to restructure and codify the AICPA Code of Professional Conduct (AICPA Code) so that members and other users of the AICPA Code can apply the rules and reach correct conclusions more easily and intuitively. To achieve this, PEEC is proposing to restructure the AICPA Code into several parts organized by topic, edit the AICPA Code using consistent drafting and style conventions, incorporate a conceptual framework for members in public practice and in business, revise certain AICPA Code provisions to reflect the *conceptual framework* approach (also known as the *threats and safeguard* approach), and, where applicable, reference existing nonauthoritative guidance to the relevant topic. As discussed further (see the "Substantive Changes" section that follows), it is PEEC's intent to maintain the substance of the existing AICPA ethics standards. PEEC believes this was achieved; however, during the process, PEEC identified some areas that needed revision and have been highlighted as substantive changes.

AICPA Ethics Codification Project State Board Advisory Group

In an effort to ensure that state boards of accountancy were kept apprised of the project, a State Board Advisory Group was established. The State Board Advisory Group met with project staff throughout the project to provide valuable input on key issues and to assist with efforts to communicate with state boards. This group also provided project staff with feedback from the state boards and participated in the pilot testing process described in the following paragraphs.

Pilot Testing

Because the substance of the existing AICPA ethics standards was to be maintained but would be structured much differently, the restructured AICPA Code was pilot tested prior to being approved by PEEC for exposure. PEEC selected a diverse group of 40 individuals who were very familiar with the AICPA Code to review a draft version of the revised AICPA Code and comment on the technical accuracy of the provisions (for example, whether the substance or intent of a provision has changed in the drafting process), structure, format, and ease of use. The pilot testers provided valuable feedback that was incorporated into the restructured AICPA Code contained in this exposure draft.

New Structure of Code

The restructured AICPA Code is divided into separate parts. The first part is the preface which is applicable to all members and covers topics such as the structure of the AICPA Code; the principles of professional conduct; the defined terms that are used in the AICPA Code; nonauthoritative guidance; and new, revised, and pending interpretations. The remaining three parts are divided according to member's practice. Part 1 is applicable to members in public practice, part 2 is applicable to members in business, and part 3 is applicable to all other members such as those who are retired or unemployed. By structuring the AICPA Code this way, PEEC believes that members will be able to easily identify what provisions apply to them. For members who are both in public practice and in business, content that is relevant to both parts appears in the corresponding citation (an explanation of numeric citations follows). The actual content differs only where necessary (for example, part 1 might refer to a firm whereas part 2 might refer to employer).

Numeric Citations

The new citation numbering system for the AICPA Code looks like “ET section X.XXX.XXX.” The single digit that begins the citation identifies in which part the content resides. Accordingly, content from the preface begins with the single digit 0.XXX.XXX, whereas content for part 1 begins with a 1.XXX.XXX, part 2 with a 2.XXX.XXX, and part 3 with a 3.XXX.XXX. Next are two sets of three digit numbers that identify the topics and, when applicable, subtopics or sections. To facilitate use, when a topic, subtopic, or section appears in two or more parts, the same number is used.

Definitions and Cross References

Defined terms (ET section 0.400, “Definitions” [AICPA, *Professional Standards*]) are shown in italics throughout the AICPA Code. For purposes of the exposure draft, these terms are also hyperlinked to the definition; hyperlinks that do not appear in italics are cross references. If a hyperlink is selected, users can return to their previous location by selecting the “Alt” and left arrow button at the same time. When a defined term is used in the AICPA Code but is not shown in italics, the definition in ET section 0.400 would not be applicable.

Rules of Conduct

The bylaws of the AICPA require that members adhere to the rules of the AICPA Code. This has not changed with the restructured AICPA Code. However, the specific rule numbers are no longer being used. For example, Rule 101, *Independence* is now referred to as the “Independence Rule.” In addition, the manner in which the interpretations are aligned with the rules has changed. In the currently effective version of the AICPA Code, content is aligned under the applicable rules whereas in the restructured AICPA Code, the rules are aligned with the interpretations under a broad topic. For example, the “Contingent Fees Rule” and “Commission and Referral Fees Rule” and related interpretations appear under ET section 1.500, “Fees and Other Types of Remuneration” (AICPA, *Professional Standards*).

Given this construct, there are some situations in which the rule appears multiple times in the AICPA Code. For example, the “Integrity and Objectivity Rule” appears under the “Integrity and Objectivity” topic of both part 1 and part 2. However, the interpretations of this rule do not necessarily appear in both part 1 and part 2. Rather, they are aligned with the member’s practice. For example, under the “Integrity and Objectivity” topic there is a subtopic called “Conflicts of Interest” in both parts 1 and 2. In part 1, there is an interpretation that addresses conflicts of interest concerns when a member in public practice is also a director of an entity. However, this interpretation does not appear in part 2 because it would not be applicable to such members.

Finally, all ethics rulings have been redrafted as interpretations and codified under the appropriate topic.

Drafting Conventions

While redrafting the AICPA Code, a number of drafting conventions were used to enhance the clarity of the interpretations. Some of the drafting conventions are discussed in more detail in the following paragraphs. A complete guide, [*Drafting Guide—Drafting Guidelines for Integrating the Conceptual Framework and Drafting Conventions and Style Guidance*](#), is also available at

<http://aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Drafting%20Guide.pdf>.

Use of Should Consider, Consider Evaluate, or Determine

One such drafting convention is the use of the phrase *should consider*. Under the current AICPA Code, if a provision provides that a procedure or action is one that the member should consider, consideration of the procedure or action is presumptively required. Whether the member performs the procedure or action is based upon the outcome of the member's consideration and the member's professional judgment. AICPA Code provisions that (a) provide good advice to members or (b) refer the member to another ethics standard that may provide additional guidance are considered to be presumptively required and therefore, use of *should consider* is appropriate. For example, the “member should consider his or her continuing relationship with the employer..,” or the “member should consider the ‘Conflicts of Interest’ interpretation under the ‘Integrity and Objectivity Rule’...”

Alternatives to *should consider* include *should evaluate* or *should determine*, but such were used in the proposed codification only when it made sense in the context of the requirement and did not change the substance of the member’s obligation. PEEC used the following guidelines in considering the appropriate use of *consider*, *evaluate*, or *determine*:

- Use *consider* when the member is required to think about several matters.
- Use *evaluate* when the member has to assess and weigh the significance of a matter.
- Use *determine* when the member has to conclude and make a decision.

Other Drafting Conventions and Style Guidance

In addition to the *should consider* drafting convention, PEEC used the following drafting conventions, whenever possible or appropriate, to eliminate inconsistencies or to clarify the intent of interpretations:

- Use the phrase *independence would be impaired*.
- Avoid using legalistic terms (for example, *including but not limited to*).
- Use content in ethics rulings as examples in interpretations.
- Draft interpretations in active voice, in which the subject is doing the action. For example, an interpretation should read “the member should apply safeguards” rather than “safeguards should be applied by the member.”
- Do not use present tense in an interpretation with regard to member actions or procedures that the member performs. For example, the interpretation should read “the member should....” rather than “the member does...” Present tense may be used for statements of fact not related to member actions.
- Requirements should apply to the member and not to others such as a client or management because the AICPA only has jurisdiction over the member. For example, refrain from statements such as “the client must...”
- Refrain from using qualifiers such as *generally*, *ordinarily*, *normally*, and *usually* in requirements because these create ambiguity.
- Keep footnotes to a minimum; reserve them for cross-references to other standards.

Conceptual Framework

PEEC proposes to incorporate two conceptual framework interpretations into the restructured AICPA Code: one for members in public practice and another, very similar, one for members in business. In addition, for members in public practice who provide attest services to clients, there is a conceptual framework for independence that focuses on the specific threats to independence. The conceptual framework for independence is a redraft of the extant [*Conceptual Framework for AICPA Independence Standards \(AICPA, Professional Standards, ET sec. 100-1\)*](#). These conceptual framework interpretations are designed to assist members when they encounter a relationship or circumstance that creates threats to their compliance with the rules and when the AICPA Code contains no specific guidance to assist the member. When specific guidance is absent, under the conceptual framework interpretations, the member should evaluate whether that circumstance or relationship would lead a reasonable and informed third party that is aware of the relevant information to conclude that there is an unacceptable threat to the member's compliance with the rules.

In addition to the two conceptual framework interpretations, certain interpretations were recast to reflect the conceptual framework approach that represents a significant change. For example, the existing interpretation that prohibits a covered member from having a direct financial interest in a client is proposed to read as follows:

If a covered member had or was committed to acquire any direct financial interest in an attest client during the period of the professional engagement, the self-interest threat to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced by the application of safeguards. Accordingly, independence would be impaired.

PEEC believes this will enhance understanding of the AICPA Code by providing additional context to the AICPA Code and guidance on the application of the framework. However, recasting will not change the substance of the existing AICPA Code by allowing members to apply judgment where none is permitted today. For example, as noted in the preceding quote, if a covered member holds stock in an audit client, the only safeguard that would eliminate or sufficiently mitigate the self-interest threat to independence would be to eliminate the interest or cease being a covered member, which is the same requirement as under the current AICPA Code. Thus, recasting does not weaken the AICPA Code or allow for judgment where none is permitted now. Some interpretations in the AICPA Code, such as those for acts discreditable, false advertising, and confidentiality, do not lend themselves to a conceptual framework approach and, as such, were not recast. For those interpretations, PEEC applied only drafting and style conventions.

Nonauthoritative Guidance

As noted above, the primary objectives of restructuring the AICPA Code is so that members and other users of the AICPA Code can apply the AICPA Code more easily thus minimizing the risk of misapplication. To assist members in understanding and applying the AICPA Code, periodically the ethics division develops nonauthoritative guidance (for example, frequently asked questions [[FAQs](#)] and [Basis for Conclusions Documents](#)) that resides outside the AICPA Code. As described in ET section 0.500, "Nonauthoritative Guidance" (AICPA, *Professional Standards*), during the restructuring, PEEC re-evaluated the nonauthoritative guidance and either

proposed that some of it be made authoritative and incorporated into the revised AICPA Code or aligned links to the nonauthoritative content with the relevant topic. Links to the nonauthoritative content appear in boxed text for clarity.

Substantive Changes

Another important goal of the restructured AICPA Code was to retain the substance of the existing AICPA ethics standards. Although PEEC believes this was achieved, during the process PEEC identified some areas that needed revision. Accordingly, the following are the areas in which substantive changes made to the AICPA Code qualify as standard-setting.

Conceptual Framework

As explained in the preceding paragraphs, PEEC added two conceptual framework interpretations to the AICPA Code: one for members in business (ET section 2.000.010, “Conceptual Framework for Members in Business” [AICPA, *Professional Standards*]) and one for members in public practice (ET section 1.000.010, “Conceptual Framework for Members in Public Practice” [AICPA, *Professional Standards*]).

To apply the conceptual framework to interpretations, PEEC incorporated new interpretations under each rule (for example, ET sections 1.100.005 and 2.100.005 [AICPA, *Professional Standards*]) that require application of the appropriate conceptual framework when there is no guidance to address a particular relationship or circumstance. These interpretations conclude that the member would be in violation of the respective rule if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

Self-Review Threat

When recasting the definition of *self-review threat* in paragraph .16 of ET section 1.210.010, “Conceptual Framework for Independence” (AICPA, *Professional Standards*), PEEC noted that this threat would also be present for judgments made or work performed by an individual currently with the firm who was previously associated with the client. Accordingly, the definition of *self-review threat* was expanded to cover this scenario.

The definition of *self-review threat* reads as follows in the extant AICPA Code (AICPA, *Professional Standards*, ET sec. 100-1 par. .13):

.13 *Self-review threat*—Members reviewing as part of an attest engagement evidence that results from their own, or their firm’s, nonattest work such as, preparing source documents used to generate the client’s financial statements

The definition of *self-review threat* was revised to read as follows in this exposure draft (paragraph .16 of ET section 1.210.010):

.16 *Self-review threat*. The threat that a [member](#) will not appropriately evaluate the results of a previous judgment made, or service performed or supervised by

the member or an individual in the member's firm, and that the member will rely on that service in forming a judgment as part of an attest engagement. Certain self-review threats, such as preparing source documents used to generate the attest client's financial statements [ET section 1.295.120 (AICPA, *Professional Standards*)], pose such a significant self-review threat that no safeguards can eliminate or reduce the threats to an acceptable level.

Ethical Conflicts

The extant nonauthoritative [Guide for Complying with Rules 102–505](#) contains a discussion about ethical conflict resolution. PEEC believed this was important and, as such, included the discussion in both part 1 and part 2 (ET sections 1.000.020 and 2.000.020 (AICPA, *Professional Standards*), respectively.)

Attest Client

Because members do not need to be independent of all clients, PEEC decided when redrafting the independence content that the term *attest client* instead of *client* should be used so the guidance was not misapplied. Accordingly, PEEC developed a definition for the term *attest client* (ET section 0.400.03 [AICPA, *Professional Standards*]) and incorporated it where appropriate.

Director Positions

Extant Ethics Ruling No. 85, “Bank Director” (AICPA, *Professional Standards*, [ET sec. 191 par. .170–.171](#)), provides guidance on when a member in public practice serves as a director of a bank. When recasting this guidance, PEEC believed it was appropriate for the guidance to be presented more broadly so that it would apply when a member in public practice also serves as a director of any entity. Accordingly, the “Director Position” interpretation under the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.110.020) and the “Disclosing Client Information in Director Positions” interpretation under the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.080) were so revised.

Tax Power of Attorney and Prospective Clients Confidential Information

Over the years, the ethics hotline staff has received a number of inquiries regarding whether independence would be impaired if a member had power of attorney for an attest client that was limited to tax matters. Another frequently asked question is if a member may disclose confidential information from a prospective client without consent.

With respect to having a tax power of attorney, it was concluded that such would not impair independence provided the general requirements for performing nonattest services of extant [Interpretation No. 101-3, “Nonattest Services,” under Rule 101, Independence](#) (AICPA, *Professional Standards*, ET sec. 101 par. .05), were applied and the client made all decisions. With respect to prospective clients, it was concluded that disclosure without consent would be a violation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 1.400.001).

PEEC believes members would find it helpful if these conclusions were added to the “Tax Services” interpretation under the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295.160) and the “Use of Confidential Information From Nonclient Sources” interpretation under the “Acts Discreditable Rule.”

False, Misleading, or Deceptive Acts

In August 2011, while approving a new interpretation ([Interpretation No. 501-10, “False, misleading, or deceptive acts in promoting or marketing professional services” of Rule No. 501, Acts discreditable \[AICPA, Professional Standards, ET sec. 501 par. .11\]](#)) that is applicable to members in business, PEEC agreed that this guidance should be applied by all members. As such, PEEC agreed the “False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services” interpretation under the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 1.400.090 and 3.400.090) should be added to parts 1 and 3 of the restructured AICPA Code as a new interpretation. The language used in these two new interpretations is consistent with the language used in the redraft of Interpretation 501-10 which is found in part 2 at ET section 2.400.090, “False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services” interpretation under the “Acts Discreditable Rule” (AICPA, *Professional Standards*).

Billing for a Subcontractor’s Services

Extant Ethics Ruling No. 186, *Billing for Subcontractor’s Services*, of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, [ET sec. 591 par. .371–.372](#)), concludes that when a member contracts with a computer-hardware maintenance servicer to provide support for a client’s computer operations, any increase in fee charged by the member would not be considered a commission. When recasting this guidance PEEC believed it was appropriate for the guidance to be presented more broadly so that it would apply when billing for *any* subcontractor’s services not just for a subcontractor that provides computer-hardware maintenance. Accordingly, the “Billing for a Subcontractor’s Services” interpretation under the “Commissions and Referral Fee Rule” (AICPA, *Professional Standards*, ET sec. 1.520.070) was so revised.

Attest Engagement Performed with Former Partner

Extant Ethics Ruling No. 136, *Audit with Former Partner*, of ET section 591 (AICPA, *Professional Standards*, [ET sec. 591 par. .271–.272](#)) concludes that an audit report should be presented on plain paper when a firm consisting of one certified and one non-certified partner has been dissolved and the two individuals retain the audit to service together. When recasting this guidance PEEC believed it was appropriate for the guidance to be presented more broadly so that it would not only apply to audits. Accordingly, the “Attest Engagement Performed with Former Partner” interpretation under the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.810.040) was so revised.

Use of AICPA Awarded Designation

Extant Ethics Ruling No. 183, *Use of the AICPA Personal Financial Specialist Designation* (AICPA, *Professional Standards*, [ET sec. 591 par. .365–.366](#)), concludes that using the Personal Financial Specialist (PFS) designation on a firm’s letterhead and

marketing material was permissible provided all partners or shareholders of the firm have the designation and that an individual who holds the designation may use it after their name. When recasting this guidance PEEC believed it was appropriate for the guidance to be presented more broadly so that it would apply not only to the PFS designation but to any AICPA-awarded designation. Accordingly, the “Use of AICPA-Awarded Designation” interpretation under the “Advertising and Other Forms of Solicitation Rule” (AICPA, *Professional Standards*, ET sec. 1.600.030) was so revised.

Loans and Lending Institutions

The definition of *loan* was clarified to better align with the Financial Accounting Standard Board (FASB) Master Glossary definitions of *debt* and *loan*. Under the revised definition, loans continue to be considered as contractual obligations in which the borrower expects to pay and the lender has the right to receive money on demand or on a fixed or determinable date regardless of whether the loan includes a stated or implied rate of return to the lender. However, this definition would exclude debt securities held by an investor because debt securities are covered by the *financial interests* definition. Following is a marked version of how the extant definition of *loan* was revised in this exposure draft. Additions appear in ***bold italic*** and deletions are ~~stricken~~.

Loan. A loan is a ***contractual obligation to pay or right to receive money on demand or on a fixed or determinable date and includes a stated or implied rate of return to the lender. For purposes of this definition loans*** ~~financial transaction~~, the characteristics of which generally include, but are not limited to, an agreement that provides for repayment terms and a rate of interest. A loan includes, ***among other things,*** ~~but is not limited to,~~ a guarantee of a loan, a letter of credit, a line of credit, or a loan commitment. ***However, for purposes of this definition a loan would not include debt securities (which are considered a financial interest) or lease arrangement.***

Given the clarifications made to the definition of a *loan*, the committee decided to change the term in the definition *financial institution* to the term *lending institution*. Many users believed the original term, *financial institution*, was limited to a bank or similar depository institution because they make loans to the general public. Therefore, this term was revised to clarify that a lending institution is any entity that makes loans as part of its normal operations, such as banks, thrifts, credit unions, retailers that issue credit cards, or finance companies. Following is a marked version of how the extant definition of *financial institution* was revised to *lending institution* in this exposure draft. Additions appear in ***bold italic*** and deletions are ~~stricken~~.

~~Financial~~ ***Lending*** Institution. A ~~financial~~***lending*** institution is ~~considered to be~~ an entity that, as part of its normal business operations, makes loans. ~~or extends credit to the general public.~~ ***The definition of a lending institution is not meant to include an organization which might schedule payment for services for a client over a period of time. Examples of entities that*** ~~In addition, for automobile leases addressed under interpretation 101-5, Loans From Financial Institution Clients [ET section 101.07], an entity would be considered a financial~~ ***lending***

institution *are banks, credit unions, certain retailers, insurance and finance companies. For example, for automobile leases addressed by the Loans and Leases With Lending Institutions interpretation of the “Independence Rule” (AICPA, Professional Standards, ET sec. 1.260.020), an entity would be considered a lending institution if it leases automobiles as part of its normal business operations to the general public.*

Blind Trusts

The extant Interpretation No. 101-15, “Financial Relationships” (AICPA, *Professional Standards*, [ET sec. 101 par. .17](#)), provides guidelines for determining when a trust and its underlying investments should be considered a financial interest of a covered member. The interpretation then applied the guidelines to a blind trust example.

When redrafting the trust portion of the interpretation, PEEC decided it would be more effective if the interpretation only contained the guidelines and not the blind trust example. PEEC noted that members reading the example might not realize that this is just one way in which a blind trust might be structured and as such, moved the example into a nonauthoritative [FAQ](#). To ensure readers are aware of the [FAQ](#) a reference to the [FAQ](#) was added at the end of the “Trust Investment” interpretation (AICPA, *Professional Standards*, ET sec. 1.245.020).

The blind trust example deleted from Interpretation No. 101-15 is as follows:

In a blind trust, the grantor is also the beneficiary, but does not supervise or participate in the trust's investment decisions during the term of the trust. However, the investments will ultimately revert to the grantor, and the grantor usually retains the right to amend or revoke the trust. Therefore, both the blind trust and the underlying investments held in a blind trust are considered to be direct financial interests of the covered member.

The FAQ reads as follows:

Blind Trusts

Question. A covered member creates a blind trust and transfers assets into the blind trust. The covered member will not supervise or participate in the trust’s investment decisions during the term of the trust. Will the trust and the underlying assets be considered the covered member’s direct financial interests?

Answer. Although the covered member will not supervise or participate in the trust’s investments decisions during the term of the trust, the trust and the underlying investments will be considered the covered member’s direct financial interest if: (1) the covered member retains the right to amend or revoke the trust, or (2) the underlying trust investments will ultimately revert to the covered member as the grantor of the trust. See the Trust Investments section of the *Financial Relationships* interpretation (AICPA, *Professional Standards*, par. 17 of ET section 101) for other rights and responsibilities that would cause a trust

and the underlying investments to be considered direct financial interests of a covered member. [December 2012]

Mapping of Content to Existing AICPA Code

Because the format of the restructured AICPA Code would be changed significantly from the existing AICPA Code, PEEC has provided appendix C, “[Mapping Document](#),” that maps the content in the restructured AICPA Code to the extant AICPA Code citation. PEEC believes the mapping will assist members, regulators, and other users who, as part of their duties, need a comprehensive understanding of the changes made during the restructuring process. For example, many state boards of accountancy incorporate the AICPA Code into their statutes or regulations by reference. To continue doing so once the restructured AICPA Code is final may require these boards to take action, consistent with their states’ mandates and other requirements.

In addition to the Mapping Document, there is a [bracketed citation] at the end of each restructured interpretation to the current AICPA Code content. Finally, a [Draft Framework Document](#) is available (at <http://aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Preliminary%20Framework%20for%20Codification.pdf>) where the extant citation appears after the title of the restructured content.

Deleted Content

The content included in ET section 0.700, *Deleted Standards* (AICPA, *Professional Standards*), and in a [document](#) loaded to the division’s website lists all the content deleted from the AICPA Code during the past 10 years as of May 31, 2013. It should be noted that the content related to client affiliates that was reestablished by PEEC at the October 2012 meeting remains on these lists. Because the content was added back to the professional standards in January 2013 (when it appeared in the *Journal of Accountancy*) and will be removed by January 1, 2014 (before the revised AICPA Code will be effective), the reestablished content is maintained in the document as deleted standards. However, the notation “*Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18*” was added for clarification.

Content Cutoff

PEEC’s goal was to include content in this exposure draft that was adopted by PEEC as of January 29, 2013, the date PEEC voted to issue this exposure draft, which includes standards expected to be released in the May 2013 *Journal of Accountancy*. The only exception is for the content that was reestablished by PEEC at the October 2012 meeting. Because this reestablished content will be deleted on January 1, 2014, before the revised AICPA Code will be effective, it was not incorporated.

Effective Date

The revised AICPA Code will be effective December 15, 2014, with an exception for the two broad conceptual frameworks (“Conceptual Framework for Members in Public Practice” and “Conceptual Framework for Members in Business”). The two broad conceptual frameworks will be given an additional one year delayed effective date.

For exposure draft purposes only, the effective date appears in brackets at the end of the applicable standard when the standard has an effective date after May 31, 2013.

Request for Specific Comments

Please review the proposal to restructure the AICPA Code and provide PEEC with feedback. Comments are welcome on all aspects of the proposal to restructure the AICPA Code; please also specifically consider the following questions:

1. Has the substance of any current interpretations or rulings, other than those indicated under the “Substantive Changes” heading, changed significantly and, if so, how?
2. Is an additional one year delayed effective date for the two broad conceptual frameworks (“Conceptual Framework for Members Public Practice” and “Conceptual Framework for Members in Business”) sufficient? If not, why, and what time period would be sufficient?

TABLE OF CONTENTS

Preface.....	29
0.100 Overview of the Code of Professional Conduct	29
0.100.010 Rules of Conduct	29
0.100.020 Interpretations and Other Guidance.....	29
0.200 Structure and Application of the AICPA Code.....	30
0.200.010 Structure of the AICPA Code.....	30
0.200.020 Application of the AICPA Code.....	30
0.200.030 Citations to Prior ET Sections	31
0.200.040 Transition Provisions.....	32 31
0.300 Principles of Professional Conduct.....	32
0.300.010 Preamble	32
0.300.020 Responsibilities.....	32
0.300.030 The Public Interest.....	32
0.300.040 Integrity	33
0.300.050 Objectivity and Independence	33
0.300.060 Due Care	34
0.300.070 Scope and Nature of Services.....	35
0.400 Definitions.....	36
0.500 Nonauthoritative Guidance	46
0.600 New, Revised, and Pending Interpretations.....	47
0.600.010 New and Revised Interpretations.....	47
0.600.020 Pending Interpretations.....	51
0.700 Deleted Standards	53
Part 1: Members in Public Practice.....	58
1.000 Introduction.....	58

1.000.010	Conceptual Framework for Members in Public Practice.....	58
1.000.020	Ethical Conflicts	65
1.100	Integrity and Objectivity	67
1.100.001	Integrity and Objectivity Rule	67
1.100.005	Application of the Conceptual Framework for Members in Public Practice ..	67
1.110	Conflicts of Interest.....	67
1.110.010	Conflicts of Interest	67
1.110.020	Director Positions	69
1.120	Gifts and Entertainment	69
1.120.010	Offering or Accepting Gifts or Entertainment.....	69
1.130	Preparing and Reporting Information	71
1.130.010	Knowing Misrepresentations in the Preparation of Financial Statements or Records	71
1.130.020	Subordination of Judgment.....	71
1.140	Client Advocacy.....	72
1.140.010	Client Advocacy	72
1.150	Use of a Third-Party Service Provider.....	72
1.150.040	Use of a Third-Party Service Provider	72
1.200	Independence	74
1.200.001	Independence Rule	74
1.200.005	Application of the Conceptual Framework for Independence.....	74
1.210	Conceptual Framework Approach	74
1.210.010	Conceptual Framework for Independence.....	74
1.220	Accounting Firms.....	78
1.220.010	Network and Network Firms	79
1.220.020	Alternative Practice Structures	82

1.220.030	Use of a Nonindependent CPA Firm on an Engagement	86
1.224	Affiliates, Including Governmental Units.....	86
1.224.010	Client Affiliates	86
1.224.020	Entities Included In State and Local Government Financial Statements	<u>8788</u>
1.226	Reissued Reports.....	89
1.226.010	Consenting to the Use of a Previously Issued Report	89
1.228	Engagement Contractual Terms.....	90
1.228.010	Indemnification of a Covered Member	90
1.228.020	Indemnification of an Attest Client	90
1.228.030	Alternative Dispute Resolution	90
1.230	Fees	91
1.230.010	Unpaid Fees	91
1.230.020	Fees and Other Types of Remuneration	91
1.240	Financial Interests	91
1.240.010	Overview of Financial Interests.....	<u>9192</u>
1.240.020	Unsolicited Financial Interests	92
1.240.030	Mutual Funds.....	92
1.240.040	Retirement, Savings, Compensation, or Similar Plans.....	93
1.240.050	Partnerships	94
1.240.060	Limited Liability Companies.....	95
1.240.070	Section 529 Plans.....	95
1.245	Trusts and Estates	96
1.245.010	Trustee or Executor	96
1.245.020	Trust Investments	97
1.250	Participation in Employee Benefit Plans	97
1.250.010	Plan Is an Attest Client or Is Sponsored by an Attest Client.....	97

1.250.020	Former Partners and Professional Employees Participation in a Firm-Sponsored Plan	98
1.255	Depository, Brokerage, and Other Accounts	98
1.255.010	Depository Accounts	98 9899
1.255.020	Brokerage and Other Accounts.....	99
1.257	Insurance Products.....	100
1.257.010	Policies With No Investment Option.....	100
1.257.020	Policies With Investment Options	100
1.257.030	Insurer Undergoes Demutualization	101
1.260	Loans, Leases, and Guarantees	101
1.260.010	Loans	101
1.260.020	Loans and Leases With Lending Institutions	101
1.260.030	Servicing of a Loan.....	103
1.260.040	Leases	103
1.260.050	Association With an Entity That Has a Loan To or From an Attest Client...	104
1.265	Business Relationships.....	104
1.265.010	Cooperative Arrangements With Attest Clients	104
1.265.020	Joint Closely Held Investments	105
1.270	Family Relationships With Attest Clients.....	105 106
1.270.010	Immediate Family Members.....	105 106
1.270.020	Immediate Family Member Is Employed by the Attest Client.....	106 107
1.270.030	Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client (Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans)	107
1.270.040	Immediate Family Member Participation in an Employee Benefit Plan With Financial Interests in an Attest Client	108

1.270.050	Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients .	109
1.270.060	Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client	110 111
1.270.070	Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation.....	111
1.270.080	Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan.....	112
1.270.100	Close Relatives	112 113
1.275	Employment or Association With an Attest Client	114
1.275.005	Simultaneous Employment or Association With an Attest Client	114
1.275.010	Honorary Director or Trustee of a Not-for-Profit Organization.....	115
1.275.015	Advisory Board.....	115
1.275.020	Governmental Advisory Committee.....	115
1.275.025	Campaign Treasurer	116
1.275.030	Federated Fund-Raising Organization.....	116
1.275.035	Fund-Raising Organization.....	116 117
1.275.100	Former Employment or Association With an Attest Client	117
1.275.200	Considering Employment or Association With an Attest Client.....	118
1.275.210	Subsequent Employment or Association With an Attest Client.....	119
1.280	Memberships.....	120 121
1.280.010	Member of a Social Club.....	120 121
1.280.020	Member of a Trade Association	121
1.280.030	Member of Common Interest Realty Association	121
1.280.040	Member of a Credit Union.....	122
1.285	Gifts and Entertainment	122
1.285.010	Offering or Accepting Gifts or Entertainment.....	122
1.290	Actual or Threatened Litigation.....	123 124
1.290.010	Actual or Threatened Litigation	123 124

1.295	Nonattest Services.....	126
1.295.010	Scope and Applicability of Nonattest Services	126 <u>127</u>
1.295.020	Cumulative Effect on Independence When Providing Nonattest Services ...	128
1.295.030	Management Responsibilities.....	128
1.295.040	General Requirements for Performing Nonattest Services.....	129
1.295.050	Documentation Requirements When Providing Nonattest Services	130
1.295.105	Advisory Services.....	130 <u>131</u>
1.295.110	Appraisal, Valuation, and Actuarial Services.....	131
1.295.115	Benefit Plan Administration	132
1.295.120	Bookkeeping, Payroll, and Other Disbursements.....	133
1.295.125	Business Risk Consulting	134 <u>135</u>
1.295.130	Corporate Finance Consulting	135
1.295.135	Executive or Employee Recruiting.....	136
1.295.140	Forensic Accounting.....	136 <u>137</u>
1.295.145	Information Systems Design, Implementation, or Integration	139
1.295.150	Internal Audit.....	140
1.295.155	Investment Advisory or Management	143
1.295.160	Tax Services	143 <u>144</u>
1.297	Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements	145 <u>146</u>
1.297.010	Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements	145 <u>146</u>
1.297.020	Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs	146
1.297.030	Engagements, Other Than AUPs, Performed in Accordance With SSAEs ..	147
1.300	General Standards	148 <u>149</u>
1.300.001	General Standards Rule	148 <u>149</u>
1.300.005	Application of the Conceptual Framework for Members in Public Practice	148 <u>149</u>

1.300.010	Competence	<u>148149</u>
1.300.020	Supervision of a Specialist on Consulting Engagements	<u>149150</u>
1.300.030	Submission of Financial Statements.....	<u>149150</u>
1.300.040	Use of a Third-Party Service Provider	<u>149150</u>
1.310	Compliance With Standards	<u>151152</u>
1.310.001	Compliance With Standards Rule.....	<u>151152</u>
1.310.005	Application of the Conceptual Framework for Members in Public Practice	<u>151152</u>
1.320	Accounting Principles.....	<u>152153</u>
1.320.001	Accounting Principles Rule.....	<u>152153</u>
1.320.005	Application of the Conceptual Framework for Members in Public Practice	<u>152153</u>
1.320.010	Responsibility for Affirming that Financial Statements Are in Conformity With the Applicable Financial Reporting Framework	<u>152153</u>
1.320.020	Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations	<u>152153</u>
1.320.030	Departures From Generally Accepted Accounting Principles	<u>153154</u>
1.320.040	Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP.....	<u>154155</u>
1.400	Acts Discreditable.....	<u>155156</u>
1.400.001	Acts Discreditable Rule.....	<u>155156</u>
1.400.005	Application of the Conceptual Framework for Members in Public Practice	<u>155156</u>
1.400.010	Discrimination and Harassment in Employment Practices	<u>155156</u>
1.400.020	Solicitation or Disclosure of CPA Examination Questions and Answers	<u>155156</u>
1.400.030	Failure to File a Tax Return or Pay a Tax Liability.....	<u>155156</u>
1.400.040	Negligence in the Preparation of Financial Statements or Records	<u>155156</u>
1.400.050	Governmental Bodies, Commissions, or Other Regulatory Agencies	<u>156157</u>

1.400.055	Governmental Audits.....	<u>156157</u>
1.400.060	Indemnification and Limitation of Liability Provisions	<u>156157</u>
1.400.070	Confidential Information Obtained From Employment or Volunteer Activities	<u>157158</u>
1.400.090	False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services	<u>159160</u>
1.400.100	Use of the CPA Credential	<u>159160</u>
1.400.200	Records Requests.....	<u>160161</u>
1.400.210	Removing Client Files or Proprietary Information From a Firm	<u>162163</u>
1.400.240	Use of Confidential Information From Nonclient Sources	<u>162163</u>
1.500	Fees and Other Types of Remuneration.....	<u>163164</u>
1.500.008	Unpaid Fees	<u>163164</u>
1.510	Contingent Fees	<u>163164</u>
1.510.001	Contingent Fees Rule.....	<u>163164</u>
1.510.005	Application of the Conceptual Framework for Members in Public Practice	<u>163164</u>
1.510.010	Tax Matters.....	<u>164165</u>
1.510.020	Receipt of Contingent Fee	<u>165166</u>
1.510.030	Services Performed by a Member’s Spouse For a Contingent Fee	<u>165166</u>
1.510.040	Contingent Fee Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client.....	<u>165166</u>
1.510.050	Investment Advisory Services	<u>166167</u>
1.520	Commissions and Referral Fees.....	<u>166167</u>
1.520.001	Commissions and Referral Fees Rule.....	<u>166167</u>
1.520.005	Application of the Conceptual Framework for Members in Public Practice	<u>167168</u>
1.520.020	Receipt of Commission	<u>167168</u>
1.520.030	Services Performed by a Member’s Spouse For a Commission	<u>167168</u>
1.520.040	Referral of Products of Others.....	<u>167168</u>

1.520.050	Commission Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client	168169
1.520.060	Sale of Products to Clients.....	168169
1.520.070	Billing for a Subcontractor’s Services.....	169170
1.600	Advertising and Other Forms of Solicitation.....	170171
1.600.001	Advertising and Other Forms of Solicitation Rule	170171
1.600.005	Application of the Conceptual Framework for Members in Public Practice	170171
1.600.010	False, Misleading, or Deceptive Acts in Advertising or Solicitations.....	170171
1.600.030	Use of AICPA-Awarded Designation	171172
1.600.100	Use of the CPA Credential	171172
1.700	Confidential Information	172173
1.700.001	Confidential Client Information Rule.....	172173
1.700.005	Application of the Conceptual Framework for Members in Public Practice	172173
1.700.010	Client Competitors.....	172173
1.700.020	Disclosing Information From Previous Engagements.....	173174
1.700.030	Disclosing Information to Persons or Entities Associated With Clients.	173174
1.700.040	Disclosing Information to a Third-Party Service Provider.....	174175
1.700.050	Disclosing Client Information in Connection With a Review of the Member’s Practice	175176
1.700.060	Disclosure of Client Information to Third Parties	175176
1.700.070	Disclosing Client Information During Litigation	176177
1.700.080	Disclosing Client Information in Director Positions	176177
1.700.090	Disclosing Client Names	177178
1.700.100	Disclosing Confidential Client Information as a Result of a Subpoena or Summons	177178
1.800	Form of Organization and Name	178179
1.800.001	Form of Organization and Name Rule	178179

1.800.005	Application of the Conceptual Framework for Members in Public Practice	<u>178179</u>
1.810	Form of Organization and Related Practice Issues	<u>178179</u>
1.810.010	Ownership of a Separate Business	<u>178179</u>
1.810.020	Partner Designation	<u>179180</u>
1.810.030	A Member's Responsibility for Nonmember Practitioners	<u>179180</u>
1.810.040	Attest Engagement Performed With a Former Partner	<u>180181</u>
1.810.050	Alternative Practice Structures	<u>180181</u>
1.820	Firm Name	<u>181182</u>
1.820.010	Use of a Retired Partner's Name	<u>181182</u>
1.820.020	A Practice With Non-CPA Partners	<u>181182</u>
1.820.030	Misleading Firm Names	<u>181182</u>
1.820.040	Use of a Common Brand Name in Firm Name	<u>181182</u>
Part 2:	Members in Business	<u>183184</u>
2.000	Introduction	<u>183184</u>
2.000.010	Conceptual Framework for Members in Business	<u>183184</u>
2.000.020	Ethical Conflicts	<u>188189</u>
2.100	Integrity and Objectivity	<u>190191</u>
2.100.001	Integrity and Objectivity Rule	<u>190191</u>
2.100.005	Application of the Conceptual Framework for Members in Business	<u>190191</u>
2.110	Conflicts of Interest	<u>190191</u>
2.110.010	Conflicts of Interest	<u>190191</u>
2.120	Gifts and Entertainment	<u>191192</u>
2.120.010	Offering or Accepting Gifts or Entertainment	<u>191192</u>
2.130	Preparing and Reporting Information	<u>192193</u>
2.130.010	Knowing Misrepresentations in the Preparation of Financial Statements or Records	<u>192193</u>

2.130.020	Subordination of Judgment.....	<u>192193</u>
2.130.030	Obligation of a Member to His or Her Employer’s External Accountant.....	<u>193194</u>
2.140	Educational Services.....	<u>193194</u>
2.140.010	Educational Services.....	<u>193194</u>
2.300	General Standards	<u>194195</u>
2.300.001	General Standards Rule	<u>194195</u>
2.300.005	Application of the Conceptual Framework for Members in Business	<u>194195</u>
2.300.010	Competence	<u>194195</u>
2.300.030	Submission of Financial Statements.....	<u>195196</u>
2.310	Compliance With Standards	<u>196197</u>
2.310.001	Compliance With Standards Rule.....	<u>196197</u>
2.310.005	Application of the Conceptual Framework for Members in Business	<u>196197</u>
2.320	Accounting Principles.....	<u>197198</u>
2.320.001	Accounting Principles Rule.....	<u>197198</u>
2.320.005	Application of the Conceptual Framework for Members in Business	<u>197198</u>
2.320.010	Responsibility for Affirming That Financial Statements Are in Conformity With the Applicable Financial Reporting Framework	<u>197198</u>
2.320.020	Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations	<u>198199</u>
2.320.030	Departures From Generally Accepted Accounting Principles	<u>198199</u>
2.320.040	Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP.....	<u>199200</u>
2.400	Acts Discreditable.....	<u>200201</u>
2.400.001	Acts Discreditable Rule.....	<u>200201</u>
2.400.005	Application of the Conceptual Framework for Members in Business	<u>200201</u>
2.400.010	Discrimination and Harassment in Employment Practices	<u>200201</u>
2.400.020	Solicitation or Disclosure of CPA Examination Questions and Answers.....	<u>200201</u>

2.400.030	Failure to File a Tax Return or Pay a Tax Liability.....	200201
2.400.040	Negligence in the Preparation of Financial Statements or Records	200201
2.400.050	Governmental Bodies, Commissions, or Other Regulatory Agencies	201202
2.400.060	Indemnification and Limitation of Liability Provisions	201202
2.400.070	Confidential Information Obtained From Employment or Volunteer Activities	202203
2.400.090	False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services	203204
2.400.100	Use of the CPA Credential	204205
Part 3: Other Members.....		205206
3.000	Introduction.....	205206
3.000.030	Applicability	205206
3.400	Acts Discreditable.....	206207
3.400.001	Acts Discreditable Rule.....	206207
3.400.010	Discrimination and Harassment in Employment Practices	206207
3.400.020	Solicitation or Disclosure of CPA Examination Questions and Answers	206207
3.400.030	Failure to File a Tax Return or Pay a Tax Liability.....	206207
3.400.070	Confidential Information Obtained From Employment or Volunteer Activities	206207
3.400.090	False, Misleading, or Deceptive Acts in Promoting or Marketing Services	208209
3.400.100	Use of the CPA Credential	208209
Appendix A.....		209210
Appendix B		213214
Appendix C		215216

Preface

0.100 Overview of the Code of Professional Conduct

0.100.010 Rules of Conduct

- .01 The AICPA membership adopted the AICPA Code of Professional Conduct (AICPA Code) to provide guidance and rules to all [members](#) in the performance of their professional responsibilities. The AICPA Code consists of principles and rules. The principles provide the framework for the rules that govern the performance of their professional responsibilities.
- .02 The AICPA bylaws require that [members](#) adhere to the rules of the AICPA Code. Compliance with the rules depends primarily on [members](#)' understanding and voluntary actions; secondarily on reinforcement by peers and public opinion; and ultimately on disciplinary proceedings, when necessary, against [members](#) who fail to comply with the rules. [Members](#) must be prepared to justify departures from these rules.

0.100.020 Interpretations and Other Guidance

- .01 [Interpretations](#) of the rules of conduct are adopted after exposure to the membership, state societies, state boards, and other interested parties. The [interpretations](#) of the rules of conduct, the "[Definitions](#)" (AICPA, *Professional Standards*, ET sec. 0.400), the "[Application of the AICPA Code](#)" (AICPA, *Professional Standards*, ET sec. 0.200.020), and "[Citations to Prior ET Sections](#)" (AICPA, *Professional Standards*, ET sec. 0.200.030), provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. A [member](#) who departs from the [interpretations](#) shall have the burden of justifying such departure in any disciplinary hearing. [Interpretations](#) that existed before the adoption of the AICPA Code on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior committee.
- .02 A [member](#) should also consult, if applicable, the ethical requirements of the [member's](#) state CPA society; and authoritative regulatory bodies such as state board(s) of accountancy; the Securities and Exchange Commission (SEC); the Public Company Accounting Oversight Board (PCAOB), the Government Accountability Office, and the Department of Labor (DOL); or any other body that regulates a [member](#) who performs [professional services](#) for an entity when the [member](#) or entity is subject to the rules and regulations of such regulatory body. [Prior reference: Introduction]

0.200 Structure and Application of the AICPA Code

0.200.010 Structure of the AICPA Code

- .01 The AICPA Code begins with this preface, which applies to all members. The term member, when used in part 1 of the AICPA Code, applies to and means a member in public practice; when used in part 2 of the AICPA Code, applies to and means a member in business; and when used in part 3 of the AICPA Code, applies to and means all other members.
- .02 A member may have multiple roles, such as a member in business and a member in public practice. In such circumstances, the member should consult all applicable parts of the AICPA Code and apply the most restrictive provisions.
- .03 A variety of topics appear in parts 1–3 of the AICPA Code. When applicable, topics are aligned with the relevant rule or rules of conduct. Topics may be further divided into subtopics, and some subtopics include one or more sections. Topics, subtopics, and sections interpret the rules of conduct (see “Interpretations and Other Guidance” under ET section 0.100.020, “Overview of the Code of Professional Conduct” [AICPA, *Professional Standards*]).
- .04 Defined terms (see ET section 0.400) as well as the plurals and possessives thereof, are shown in *italics* throughout the AICPA Code. When a defined term is used in the AICPA Code but is not shown in *italics*, the definition in ET section 0.400 should not be applied. [No prior reference: new content]

0.200.020 Application of the AICPA Code

- .01 Paragraphs .02–.05 of this section and ET section 0.200.030 were originally adopted on January 12, 1988, and periodically revised through May 31, 2013. Effective December 15, 2014, AICPA Code’s ethics interpretations and rulings were codified. Revisions made subsequent to December 15, 2014, are identified by a parenthetical reference following the affected paragraphs, noting the month of the change and the purpose for the revision.
- .02 When used in the preface of the AICPA Code, the term member includes associate and affiliate members, as well as international associates of the AICPA.
- .03 The rules of conduct apply to all professional services performed, except
 - a. when the wording of the rule indicates otherwise.
 - b. that a member who is practicing outside the United States will not be subject to discipline for departing from any of the rules stated herein, as long as the member’s conduct is in accordance with the rules of the organized accounting profession in the country in which he or she is practicing. However, when a member’s name is associated with financial statements under circumstances that would entitle the reader to assume that practices of the U.S. were followed, the

member must comply with the “Compliance With Standards Rule” (ET section 1.310.001 [AICPA, *Professional Standards*] for members in public practice and ET section 2.310.001 [AICPA, *Professional Standards*] for members in business) and the “Accounting Principles Rule” (ET section 1.320.001 [AICPA, *Professional Standards*] for members in public practice and ET section 2.320.001 [AICPA, *Professional Standards*] for members in business).

- c. that a member who is a member of a group engagement team (see the clarified Statement on Auditing Standards *Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors]* [AICPA, *Professional Standards*, AU-C sec. 600]) will not be subject to discipline if a foreign component auditor (accountant) departed from any of the rules stated herein with respect to the audit or review of group financial statements or other attest engagement, as long as the foreign component auditor’s (accountant’s) conduct, at a minimum, is in accord with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants’ (IESBA’s) Code of Ethics for Professional Accountants, and the members of the group engagement team are in compliance with the rules stated therein.
 - d. that a member who is a member of a network firm will not be subject to discipline if a firm within the network that is located outside the United States (foreign network firm) departed from any of the rules stated herein, as long as the foreign network firm’s conduct, at a minimum, is in accordance with the ethics and independence requirements set forth in the IESBA’s Code of Ethics for Professional Accountants.
- .04** A member shall not knowingly permit a person whom the member has the authority or capacity to control to carry out on his or her behalf, either with or without compensation, acts that, if carried out by the member, would place the member in violation of the rules. Further, a member may be held responsible for the acts of all persons associated with the member in public practice whom the member has the authority or capacity to control.
- .05** The independence of a member in public practice or a covered member may be impaired with respect to a client as the result of the actions or relationships, as described in the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.200.001) and its interpretations, of certain persons or entities whom the member or covered member does not have the authority or capacity to control. Even if the member is unable to control the actions or relationships of such persons or entities, the member’s independence may still be impaired. [Prior reference: ET section 91]

0.200.030 Citations to Prior ET Sections

- .01** Effective December 15, 2014, the AICPA Code was revised by codifying the ethics interpretations and rulings. To facilitate implementation of the revised AICPA Code, the prior ET references from the professional standards of the AICPA will be included in appendix C, “Mapping Document,” for a four-year period. [No prior reference: new content]

0.200.040 Transition Provisions

- .01 The text of the transition provisions in effect as of May 31, 2013, was not codified because the transition provisions only apply to a limited number of situations. Nevertheless, these transition provisions are still authoritative. The text of these transition provisions are available at <http://aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Transition%20Periods.pdf>. [No prior reference: new content]

0.300 Principles of Professional Conduct

0.300.010 Preamble

- .01 Membership in the AICPA is voluntary, and a *member* assumes an obligation of self-discipline that may be in addition to the requirements of laws and regulations.
- .02 These principles express the profession's recognition of its responsibilities to the public, to *clients*, and to colleagues. They guide *members* in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage. [Prior reference: ET section 51]

0.300.020 Responsibilities

- .01 *Responsibilities principle.* In carrying out their responsibilities as professionals, *members* should exercise sensitive professional and moral judgments in all their activities.
- .02 As professionals, *members* perform an essential role in society. Consistent with that role, *members* of the AICPA have responsibilities to all those who use their *professional services*. *Members* also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance. The collective efforts of all *members* are required to maintain and enhance the traditions of the profession. [Prior reference: ET section 52]

0.300.030 The Public Interest

- .01 *The public interest principle.* *Members* should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.
- .02 A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of *clients*, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of *members* to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on *members*. The public interest is

defined as the collective well-being of the community of people and institutions that the profession serves.

- .03 In discharging their professional responsibilities, [members](#) may encounter conflicting pressures from each of those groups. In resolving those conflicts, [members](#) should act with integrity, guided by the precept that when [members](#) fulfill their responsibility to the public, [clients'](#) and employers' interests are best served.
- .04 Those who rely on [members](#) expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, enter into fee arrangements, and offer a range of services—all in a manner that demonstrates a level of professionalism consistent with these principles of the AICPA Code.
- .05 All who accept membership in the AICPA commit themselves to honor the public trust. In return for the faith that the public reposes in them, [members](#) should seek to continually demonstrate their dedication to professional excellence. [Prior reference: ET section 53]

0.300.040 Integrity

- .01 *Integrity principle.* To maintain and broaden public confidence, [members](#) should perform all professional responsibilities with the highest sense of integrity.
- .02 Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a [member](#) must ultimately test all decisions.
- .03 Integrity requires a [member](#) to be, among other things, honest and candid within the constraints of [client](#) confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle.
- .04 Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance or in the face of conflicting opinions, a [member](#) should test decisions and deeds by asking, Am I doing what a person of integrity would do? Have I retained my integrity? Integrity requires a [member](#) to observe both the form and spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.
- .05 Integrity also requires a [member](#) to observe the principles of objectivity and independence and due care. [Prior reference: ET section 54]

0.300.050 Objectivity and Independence

- .01 *Objectivity and independence principle.* A [member](#) should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A [member](#) in

public practice should be independent in fact and appearance when providing auditing and other attestation services.

- .02 Objectivity is a state of mind—a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services.
- .03 Members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances. Members in public practice render attest, tax, and management advisory services. Other members prepare financial statements in the employment of others, perform internal auditing services, and serve in financial and management capacities in industry, education, and government. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, members should protect the integrity of their work, maintain objectivity, and avoid any subordination of their judgment.
- .04 For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.
- .05 Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice. [Prior reference: ET section 55]

0.300.060 Due Care

- .01 *Due care principle.* A member should observe the profession's technical and ethical standards, strive to continually improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.
- .02 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability, with concern for the best interest of those for whom the services are performed, and consistent with the profession's responsibility to the public.
- .03 Competence is derived from a synthesis of education and experience. It begins with a mastery of the body of knowledge required for membership. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual

responsibility. In all engagements and responsibilities, each *member* should undertake to achieve a level of competence that will ensure that the quality of the *member's* services meets the high level of professionalism required by these principles.

- .04 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a *member* to render services with facility and acumen. It also establishes the limitations of a *member's* capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a *member* or a *member's firm*. Each *member* is responsible for assessing his or her own competence by evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.
- .05 *Members* should be diligent in discharging responsibilities to *clients*, employers, and the public. Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards.
- .06 Due care requires a *member* to adequately plan and supervise any professional activity for which he or she is responsible. [Prior reference: ET section 56]

0.300.070 Scope and Nature of Services

- .01 *Scope and nature of services principle.* A *member* in public practice should observe the principles of the AICPA Code in determining the scope and nature of services to be provided.
- .02 The public interest aspect of *members'* services requires that such services be consistent with acceptable professional behavior for *members*. Integrity requires that service and the public trust not be subordinated to personal gain and advantage. Objectivity and *independence* require that *members* be free from conflicts of interest in discharging professional responsibilities. Due care requires that services be provided with competence and diligence.
- .03 Each of these principles should be considered by *members* in determining whether to provide specific services in individual circumstances. In some instances, they may represent an overall constraint on the nonaudit services that might be offered to a specific *client*. No hard-and-fast rules can be developed to help *members* reach these judgments, but they must be satisfied that they are meeting the spirit of the principles in this regard.
- .04 In order to accomplish this, *members* should
 - a. practice in *firms* that have internal quality control procedures in place to ensure that services are competently delivered and adequately supervised.
 - b. determine, in their individual judgments, whether the scope and nature of other services provided to an audit *client* would create a conflict of interest in the performance of the audit function for that *client*.
 - c. assess, in their individual judgments, whether an activity is consistent with their role as professionals. [Prior reference: ET section 57]

0.400 Definitions

Pursuant to its authority under the bylaws (paragraph .01[3.6.2.2] of BL section 360, *Committees* [AICPA, *Professional Standards*]) to interpret the AICPA Code, the following definitions of terms appearing in the AICPA Code, effective November 30, 1989, were issued. Additions, deletions, and revisions have occurred since that time. Prior to December 15, 2014, the dates of any additions, deletions, or revisions were reflected at the end of each definition. Effective December 15, 2014, the AICPA Code's ethics *interpretations* and rulings were codified and those dates removed. Revisions made after December 15, 2014, will be indicated by a parenthetical citation following the revised paragraph noting the month of the change and the purpose for the revision.

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

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

[Prior reference: paragraph .20 of ET section 101]

- .02 Attest client.** An attest client is a client that engages a member to perform an attest engagement or with respect to which a member performs an attest engagement. [No prior reference: new content]
- .03 Attest engagement.** An attest engagement is an engagement that requires independence, as set forth in the AICPA Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARSs), and Statements on Standards for Attestation Engagements (SSAEs). [Prior reference: paragraph .01 of ET section 92]
- .04 Attest engagement team.** The attest engagement team consists of individuals participating in the attest engagement, including those who perform concurring and engagement quality reviews. The attest engagement team includes all employees and contractors retained by the firm who participate in the attest engagement, regardless of their functional classification (for example, audit, tax, or management consulting services). The attest engagement team excludes specialists, as discussed in AU-C section 620, *Using the Work of an Auditor's Specialist* (AICPA, *Professional Standards*), and individuals who perform only routine clerical functions, such as word processing and photocopying. [Prior reference: paragraph .02 of ET section 92]
- .05 Beneficially owned.** A financial interest is beneficially owned when 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. [Prior reference: paragraph .17 of ET section 101]
- .06 Client.** A client is any person or entity, other than the member's employer, that engages a member or member's firm to perform professional services and, if different, the person or entity with respect to which professional services are performed. For purposes of this definition, the term employer does not include the following:
- a. Person or entity engaged in public practice.
 - b. Federal, state, and local government or component unit thereof, provided that the member performing professional services with respect to the entity is
 - i. directly elected by voters of the government or component unit thereof with respect to which professional services are performed;
 - ii. an individual who is (1) appointed by a legislative body and (2) subject to removal by a legislative body; or
 - iii. appointed by someone other than the legislative body, so long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body.

[Prior reference: paragraph .03 of ET section 92]

.07 Close relative. A close relative is a parent, sibling, or nondependent child. [Prior reference: paragraph .04 of ET section 92]

.08 Confidential client information. Confidential client information is any information obtained from the [client](#) that is not available to the public. Information that is available to the public includes, but is not limited to, information

- a. in a book, periodical, newspaper, or similar publication;
- b. in a [client](#) document that has been released by the [client](#) to the public or that has otherwise become a matter of public knowledge;
- c. on publicly accessible websites, databases, online discussion forums, or other electronic media by which members of the public can access the information;
- d. released or disclosed by the [client](#) or other third parties in media interviews, speeches, testimony in a public forum, presentations made at seminars or trade association meetings, panel discussions, earnings press release calls, investor calls, analyst sessions, investor conference presentations, or a similar public forum;
- e. maintained by, or filed with, regulatory or governmental bodies that is available to the public; or
- f. obtained from other public sources.

Unless the particular [client](#) information is available to the public, such information should be considered confidential client information. [Members](#) are advised that federal, state, or local statutes, rules, or regulations concerning confidentiality of [client](#) information may be more restrictive than the requirements contained in the AICPA Code. [Prior reference: paragraph .05 of ET section 92]

.09 Control (s) (led). Control is as used in FASB *Accounting Standards Codification* (ASC) 810, *Consolidation*. When used in the “[Client Affiliates](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.224.010), control depends upon the entity in question. For not-for-profit entities, control is as used in FASB ASC 958-805-20. For commercial entities, control is as used in FASB ASC 810. [Prior reference: numerous ET sections; see document titled “[Breakdown of the term Control in the Code 4-2-12](#)”]

.10 Council. The AICPA Council. [Prior reference: paragraph .06 of ET section 92]

.11 Covered member. A covered member is

- a. an individual on the [attest engagement team](#);
- b. an [individual in a position to influence the attest engagement](#);
- c. a [partner](#), [partner equivalent](#), or [manager](#) who provides nonattest services to the [attest client](#) beginning once he or she provides 10 hours of nonattest services to the [client](#) within any fiscal year and ending on the later of the date that (i) the [firm](#)

signs the report on the financial statements for the fiscal year during which those services were provided or (ii) he or she no longer expects to provide 10 or more hours of nonattest services to the attest client on a recurring basis;

- d. a partner or partner equivalent in the office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement;
- e. the firm, including the firm's employee benefit plans; or
- 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 two or more such individuals or entities if they act together.

[Prior reference: paragraph .07 of ET section 92] [Revised March 2013, for the partner equivalents revisions effective for engagements covering periods beginning on or after December 15, 2014.]

.12 Direct financial interest. A direct financial interest is a financial interest

- a. owned directly by an individual or entity, including those managed on a discretionary basis by others.
- b. under the control of an individual or entity, including those managed on a discretionary basis by others.
- c. beneficially owned through an investment vehicle, estate, trust, or other intermediary when the beneficiary
 - i. controls the intermediary or
 - ii. has the authority to supervise or participate in the intermediary's investment decisions.

When used in this definition, the term *control* includes situations in which the covered member, individually or acting together with his or her firm or other partners or professional employees of his or her firm, has the ability to exercise such control. [Prior reference: paragraph .17 of ET section 101]

.13 Financial interest. A financial interest is an ownership interest in an equity or a debt security issued by an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest. [Prior reference: paragraph .17 of ET section 101]

.14 Financial statement attest client. An entity whose financial statements are audited, reviewed, or compiled when the member's compilation report does not disclose a lack of independence. [Prior reference: paragraph .20 of ET section 101]

.15 Financial statements. A presentation of financial data, including accompanying disclosures, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with the applicable financial reporting framework. Incidental financial data to

support recommendations to a client or in (a) documents for which the reporting is governed by SSAEs and (b) tax returns and supporting schedules do not, for this purpose, constitute financial statements. The statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion. [Prior reference: paragraph .10 of ET section 92]

- .16 Firm.** A firm is a form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council and that is engaged in public practice. A firm includes the individual partners thereof, except for purposes of applying the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.200.001) and related interpretations. For purposes of applying the “Independence Rule,” a firm includes a network firm when the engagement is either a financial statement audit or review engagement and the audit or review report is not restricted, as set forth in the AICPA SASs and SSARSs (AICPA, *Professional Standards*). [Prior reference: paragraph .11 of ET section 92]
- .17 Immediate family.** Immediate family is a spouse, spousal equivalent, or dependent (regardless of whether the dependent is related). [Prior reference: paragraph .13 of ET section 92]
- .18 Independence.** Independence consists of two elements defined as follows:
- a. 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.
 - b. 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 the 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 any and all influences that might compromise objective judgment. Instead, the member should determine whether such influences, if present, create an unacceptable threat 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. [Prior reference: ET section 100-1]

- .19 Indirect financial interest.** An indirect financial interest is a financial interest beneficially owned through an investment vehicle, an estate, a trust, or an other intermediary when the beneficiary neither controls the intermediary nor has the authority to supervise or participate in the intermediary’s investment decisions. When used in this definition, control includes situations in which the covered member, individually or acting together with his or her firm or other partners or professional employees of his or

her firm, has the ability to exercise such control. [Prior reference: paragraph .17 of ET section 101]

.20 Individual in a position to influence the attest engagement. An individual in a position to influence the attest engagement is one who

- a. evaluates the performance or recommends the compensation of the attest engagement partner;
- b. directly supervises or manages the attest engagement partner, including all successively senior levels above that individual through the firm's chief executive;
- c. consults with the attest engagement team regarding technical or industry-related issues specific to the attest engagement; or
- d. participates in or oversees, at all successively senior levels, quality control activities, including internal monitoring, with respect to the specific attest engagement.

[Prior reference: paragraph .14 of ET section 92]

.21 Institute. The AICPA. [Prior reference: paragraph .15 of ET section 92]

.22 Interpretation. Pronouncements issued by the division of professional ethics to provide guidelines concerning the scope and application of the rules of conduct. [Prior reference: paragraph .16 of ET section 92]

.23 Joint closely held investment. A joint closely held investment is an investment in an entity or a property by the member and client (or the client's officers or directors or any owner who has the ability to exercise significant influence over the client) that enables them to control the entity or property. [Prior reference: paragraph .17 of ET section 92]

.24 Key position. A key position is a position in which an individual has

- a. primary responsibility for significant accounting functions that support material components of the financial statements;
- b. primary responsibility for the preparation of the financial statements; or
- c. the ability to exercise influence over the contents of the financial statements, including when the individual is a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

For purposes of attest engagements not involving a client's financial statements, a key position is one in which an individual is primarily responsible for, or able to influence, the subject matter of the attest engagement, as previously described. [Prior reference: paragraph .18 of ET section 92]

- .25 Lending institution.** A lending institution is an entity that, as part of its normal business operations, makes *loans*. This definition is not meant to include an organization that might schedule payment for services for a client over a period of time. Examples of entities that would be considered a lending institution are banks, credit unions, certain retailers, and insurance and finance companies. For example, for automobile leases addressed by the “[Loans and Leases With Lending Institutions](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.260.020), an entity would be considered a lending institution if it leases automobiles as part of its normal business operations. [Prior reference: paragraph .09 of ET section 92]
- .26 Loan.** A loan is a contractual obligation to pay or right to receive money on demand or on a fixed or determinable date and includes a stated or implied rate of return to the lender. For purposes of this definition, loans include, among other things, a guarantee of a loan, a letter of credit, a line of credit, or a loan commitment. However, for purposes of this definition, a loan would not include debt securities (which are considered a *financial interest*) or lease arrangements. [Prior reference: paragraph .19 of ET section 92]
- .27 Manager.** A manager is a professional employee of the *firm* who has continuing responsibility for the planning and supervision of engagements for specified *clients*. [Prior reference: paragraph .20 of ET section 92]
- .28 Member.** A member is an associate or affiliate member or international associate of the AICPA. When the term member is used in part 1 of the AICPA Code, it means a member in *public practice*; when used in part 2 of the AICPA Code, it means a *member in business*; and when used in part 3 of the AICPA Code, it means all other members. [Prior reference: paragraph .21 of ET section 92]
- .29 Member in business.** A *member* is employed or engaged on a contractual or volunteer basis in a(n) executive, staff, governance, advisory, or administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, and regulatory or professional bodies. This does not include a *member* while engaged in *public practice*. [Prior reference: paragraph .22 of ET section 92]
- .30 Network.** For purposes of the “[Network and Network Firms](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.220.010), a network is an association of entities that includes one or more *firms* that (a) cooperate for the purpose of enhancing the *firms’* capabilities to provide *professional services* and (b) share one or more of the following characteristics:
- a. The use of a common brand name, including common initials, as part of the *firm* name
 - b. Common *control* among the *firms* through ownership, management, or other means
 - c. Profits or costs, excluding costs of operating the association; costs of developing audit methodologies, manuals, and training courses; and other costs that are immaterial to the *firm*

- d. A common business strategy that involves ongoing collaboration amongst the firms whereby the firms are responsible for implementing the association's strategy and are held accountable for performance pursuant to that strategy
- e. A significant part of professional resources
- f. Common quality control policies and procedures that firms are required to implement and that are monitored by the association

A network may comprise a subset of entities within an association only if that subset of entities cooperates and shares one or more of the characteristics set forth in the preceding list. [Prior reference: paragraph .23 of ET section 92]

.31 Network firm. A network firm is a firm or other entity that belongs to a network. This includes any entity (including another firm) that the network firm, by itself or through one or more of its owners, controls, is controlled by, or is under common control with. [Prior reference: paragraph .24 of ET section 92]

.32 Normal lending procedures, terms, and requirements. Normal lending procedures, terms, and requirements relating to a covered member's loan from a lending institution are defined as lending procedures, terms, and requirements that are reasonably comparable with those relating to loans of a similar character committed to other borrowers during the period in which the loan to the covered member is committed. Accordingly, in making such comparison and evaluating whether a loan was made under normal lending procedures, terms, and requirements, the covered member should consider all the circumstances under which the loan was granted, including the following:

- a. The amount of the loan in relation to the value of the collateral pledged as security and the credit standing of the covered member
- b. Repayment terms
- c. Interest rate, including points
- d. Closing costs
- e. General availability of such loans to the public

Related prohibitions that may be more restrictive are prescribed by certain state and federal agencies having regulatory authority over such lending institutions. Broker-dealers, for example, are subject to regulation by the SEC. [Prior reference: paragraph .25 of ET section 92]

.33 Office. An office is a reasonably distinct subgroup within a firm, whether constituted by formal organization or informal practice, in which personnel who make up the subgroup generally serve the same group of clients or work on the same categories of matters. Substance should govern the office classification. For example, the expected regular personnel interactions and assigned reporting channels of an individual may well be more important than an individual's physical location. [Prior reference: paragraph .26 of ET section 92]

- .34 Partner.** A partner is a proprietor, a shareholder, an equity or a nonequity partner, or any individual who assumes the risks and benefits of firm ownership or is otherwise held out by the firm to be the equivalent of any of the aforementioned. [Prior reference: paragraph .27 of ET section 92]
- .35 Partner equivalent.** A partner equivalent is a professional employee who is not a partner of the firm but who either
- a. has the ultimate responsibility for the conduct of an attest engagement, including the authority to sign or affix the firm's name to an attest report or issue, or authorize others to issue, an attest report on behalf of the firm without partner approval, or
 - b. has the authority to bind the firm to conduct an attest engagement without partner approval. For example, the professional employee has the authority to sign or affix the firm's name to an attest engagement letter or contract to conduct an attest engagement without partner approval.

Firms may use different titles to refer to professional employees with this authority, although a title is not determinative of a partner equivalent. For purposes of this definition, partner approval does not include any partner approvals that are part of the firm's normal approval and quality control review procedures applicable to a partner.

This definition is solely for the purpose of applying the “Independence Rule” and its interpretations and should not be used or relied upon in any other context, including the determination of whether the partner equivalent is an owner of the firm. [Prior reference: paragraph .28 of ET section 92.] [Paragraph added March 2013, effective for engagements covering periods beginning on or after December 15, 2014.]

- .36 Period of the professional engagement.** The period of the professional engagement begins when a member either signs an initial engagement letter or other agreement to perform attest services or begins to perform an attest engagement for a client, whichever is earlier. The period lasts for the entire duration of the professional relationship, which could cover many periods, and ends with the formal or informal notification, either by the member or client, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period does not end with the issuance of a report and recommence with the beginning of the following year's attest engagement. [Prior reference: paragraph .29 of ET section 92]
- .37 Public practice.** Public practice consists of the performance of professional services for a client by a member or member's firm. [Prior reference: paragraph .30 of ET section 92]
- .38 Professional services.** Professional services include all services performed by a member for a client, an employer, or on a volunteer basis, requiring accountancy or related skills including but not limited to accounting, audit and other attest services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by bodies designated by Council. [Prior reference: paragraph .31 of ET section 92]

- .39 Public interest entities.** Public interest entities are (a) all listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body, and (b) any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters). Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include (a) the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders; (b) size; and (c) number of employees. Members should refer to the independence regulations of applicable authoritative regulatory bodies when a member performs attest services and is required to be independent of the client under such regulations. [Prior reference: ET section 100-1]
- .40 Safeguards.** Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level. [Prior reference: ET section 100-1]
- .41 Share-based compensation arrangements.** As defined in the FASB ASC glossary under the term share-based payment arrangements. [Prior reference: paragraph .02 ET section 101]
- .42 Significant influence.** As defined in FASB ASC 323-10-15. [Prior reference: paragraph .32 of ET section 92]
- .43 Source documents.** Source documents are the documents upon which evidence of an accounting transaction are initially recorded. Source documents are often followed by the creation of many additional records and reports that do not, however, qualify as initial recordings. Examples of source documents are purchase orders, payroll time cards, and customer orders. [Prior reference: footnote in paragraph .05 of ET section 101]
- .44 Third-party service provider.** A third-party service provider is (a) an entity that the member, individually or collectively with his or her firm or with members of his or her firm, does not control or (b) an individual not employed by the member who assists the member in providing professional services to clients (for example, bookkeeping, tax return preparation, consulting, or attest services, including related clerical and data entry functions). [Prior reference: paragraphs .224–.225 of ET section 191, .023–.024 of ET section 291 and .001–.002 of ET section 391]

0.500 Nonauthoritative Guidance

- .01 The AICPA Code is the only authoritative source of AICPA ethics rules and [interpretations](#). The staff of the Professional Ethics Division has issued nonauthoritative guidance to assist [members](#) and others in their implementation of the AICPA Code. Such guidance does not amend or override the AICPA Code. Further, the guidance is not meant to be exhaustive and does not establish best practices, set standards, or serve as official pronouncements of the AICPA. These documents were not approved in accordance with normal due process, which requires exposure to the public of proposed changes to [interpretations](#) of the AICPA Code and consideration of [members'](#) and others' comments.
- .02 References to relevant nonauthoritative guidance, when available, are provided throughout the AICPA Code in boxed text at the end of the applicable [interpretation](#). [No prior reference: new content]

0.600 New, Revised, and Pending Interpretations

0.600.010 New and Revised Interpretations

.01 Periodically, new or revised authoritative ethics [interpretations](#) are issued. Publication of a notice with a link to the text of a new or revised authoritative [interpretation](#) in the *Journal of Accountancy* constitutes notice to [members](#). Hence, the effective date of the [interpretation](#) is the last day of the month in which the pronouncement is published in the *Journal of Accountancy*, unless otherwise noted. The Professional Ethics Division takes into consideration the time that would have been reasonable for the [member](#) to comply with the pronouncement. This section lists the citation and title of any new or revised [interpretation](#) for a period of 12 months after its effective date. When an [interpretation](#) is not yet effective, it will appear as a pending [interpretation](#) (see ET section 0.600.020, “Pending Interpretations” [AICPA, *Professional Standards*]):

- “[Application of the AICPA Code](#)” section of the “Structure and Application” of the AICPA Code (AICPA, *Professional Standards*, ET sec. 0.200.020) (Paragraph added, August 1989, effective November 30, 1989. Revised December 1998. Revised, July 2002, to reflect conforming changes necessary due to the revision of Interpretation No. 101-1. Revised September 2011, Effective November 30, 2011. Revised March 2013, revisions effective May 31, 2013.)
- The definitions of following terms in the “Definitions” section were revised in March 2013 and are effective May 31, 2013:
 - [Client](#) (ET section 0.400 paragraph .06 [AICPA, *Professional Standards*])
 - [Firm](#) (ET section 0.400 paragraph .16 [AICPA, *Professional Standards*])
 - [Manager](#) (ET section 0.400 paragraph .27 [AICPA, *Professional Standards*])
 - [Member in business](#) (ET section 0.400 paragraph .29 [AICPA, *Professional Standards*])
 - [Public practice](#) (ET section 0.400 paragraph .37 [AICPA, *Professional Standards*])
 - [Professional services](#) (ET section 0.400 paragraph .38 [AICPA, *Professional Standards*])
- “[Network and Network Firms](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.220.010) (Effective for engagements covering periods beginning on or after July 1, 2011. Revised March 2011, by the Professional Ethics Executive Committee, effective May 31, 2011. Revised March 2013, and revisions effective May 31, 2013)
- “Period of the Engagement section” of the “[Scope and Applicability of Nonattest Services](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295.010 par. .03) (Revised March 2013 and are effective May 31, 2013)

- “Use of CPA Credential” interpretation under the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. [1.400.100](#), ET sec. [2.400.100](#), and ET sec. [3.400.100](#)) (New pronouncement issued March 2013. Effective May 31, 2013.)
- “[Use of CPA Designation](#)” interpretation under the “Advertising and Other Forms of Solicitation Rule” (AICPA, *Professional Standards*, ET sec. 1.600.100) (New pronouncement issued March 2013. Effective May 31, 2013.)
- The following revised interpretations under the “[Nonattest Services](#)” subtopic of the “Independence Rule” were issued August 2012 and were effective August 31, 2012:
 - “[Scope and Applicability of Nonattest Services](#)” (AICPA, *Professional Standards*, ET sec. 1.295.010)
 - “[Management Responsibilities](#)” (AICPA, *Professional Standards*, ET sec. 1.295.030)
 - “[General Requirements for Performing Nonattest Services](#)” (AICPA, *Professional Standards*, ET sec. 1.295.040)
 - “[Bookkeeping, Payroll, and Other Disbursements](#)” (AICPA, *Professional Standards*, ET sec. 1.295.120)
 - “[Information Systems Design, Implementation, or Integration](#)” (AICPA, *Professional Standards*, ET sec. 1.295.145)
- “[Misleading Firm Names](#)” interpretation of the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.820.030). (New pronouncement issued August 2012. Effective August 31, 2012.)
- “[Use of a Common Brand Name in Firm Name](#)” interpretation of the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.820.040). (New pronouncement issued August 2012. Effective August 31, 2012.)
- “[Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.297.010). (Revised pronouncement issued November 2011. Effective November 30, 2011. Technical correction pronouncement issued April 2012. Effective April 30, 2012.)
- “[Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.297.020). (Revised pronouncement issued November 2011. Effective November 30, 2011. Technical correction pronouncement issued April 2012. Effective April 30, 2012.)
- “[Engagements, Other Than AUPs, Performed in Accordance With SSAEs](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.297.030). (Revised pronouncement issued November 2011. Effective

November 30, 2011. Technical correction pronouncement issued April 2012. Effective April 30, 2012.)

- “Departures From Generally Accepted Accounting Principles” interpretation of the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. [1.320.030](#) and ET sec. [2.320.030](#)). (Revised pronouncement issued April 2012. Effective April 30, 2012.)
- “Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP” interpretation of the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. [1.320.040](#) and ET sec. [2.320.040](#)). (Revised pronouncement issued April 2012. Effective April 30, 2012.)
- “[Records Requests](#)” interpretation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 1.400.200). (Revised pronouncement issued April 2012. Effective April 30, 2012.)
- Paragraph .03 of the “[Application of the AICPA Code](#)” (AICPA, *Professional Standards*, ET sec. 0.200.020). (Revised pronouncement issued November 2011. Effective November 30, 2011.)
- [Confidential client information](#) under “Definitions” (ET section 0.400 paragraph .08 [AICPA, *Professional Standards*]). (New pronouncement issued November 2011. Effective November 30, 2011.)
- [Member in business](#) under “Definitions” (ET section 0.400 paragraph .29 [AICPA, *Professional Standards*]). (New pronouncement issued November 2011. Effective November 30, 2011.)
- [Public interest entity](#) under “Definitions” (ET section 0.400 paragraph .39 [AICPA, *Professional Standards*]). (Revised pronouncement issued on November 2011. Effective November 30, 2011.)
- “[Simultaneous Employment or Association With an Attest Client](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.275.005 par. .03). (New pronouncement issued November 2011. Effective November 30, 2011.)
- “[Disclosure of Client Information to Third Parties](#)” interpretation of the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.060). (Revised pronouncement issued November 2011. Effective November 30, 2011.)
- “Confidential Information Obtained From Employment or Volunteer Activities” interpretation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. [1.400.070](#), ET sec. [2.400.070](#), and ET sec. [3.400.070](#)). (New pronouncement issued November 2011. Effective November 30, 2011.)
- “[False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services](#)” interpretation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 2.400.090). (New pronouncement issued November 2011. Effective November 30, 2011.)

- [Firm](#) under “Definitions” (ET section 0.400 paragraph .16 [AICPA, *Professional Standards*]). (Revised pronouncement added May 2010. Effective for engagements covering periods beginning on or after July 1, 2011.)
- [Network](#) under “Definitions” (ET section 0.400 paragraph .30 [AICPA, *Professional Standards*]). (New pronouncement added May 2010. Effective for engagements covering periods beginning on or after July 1, 2011. Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [Network firm](#) under “Definitions” (ET section 0.400 paragraph .31 [AICPA, *Professional Standards*]). (New pronouncement added May 2010. Effective for engagements beginning on or after July 1, 2011. Revised pronouncement issued May 2011. Effective May 31, 2011.)
- “[Network and Network Firms](#)” interpretation under the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.220.010). (New pronouncement added May 2010. Effective for engagements covering periods beginning on or after July 1, 2011. Revised pronouncement issued May 2011. Effective May 31, 2011.)
- The following new and revised interpretations under the “[Family Relationships With Attest Clients](#)” subtopic of the “Independence Rule” were issued on May 31, 2010, and were effective June 1, 2011, with early application permitted:
 - “[Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client \(Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans\)](#)” (AICPA, *Professional Standards*, ET sec. 1.270.030).
 - “[Immediate Family Member Participation in an Employee Benefit Plan With Financial Interests in an Attest Client](#)” (AICPA, *Professional Standards*, ET sec. 1.270.040).
 - “[Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients](#)” (AICPA, *Professional Standards*, ET sec. 1.270.050).
 - “[Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client](#)” (AICPA, *Professional Standards*, ET sec. 1.270.060).
 - “[Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation](#)” (AICPA, *Professional Standards*, ET sec. 1.270.070).
 - “[Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan](#)” (AICPA, *Professional Standards*, ET sec. 1.270.080).
- “[Former Employment or Association With an Attest Client](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.275.100). (Revised pronouncement issued May 2010. Effective June 1, 2011. Early application permitted.)

- [Covered member](#) under “Definitions” (ET section 0.400 paragraph .11 [AICPA, *Professional Standards*]). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [Joint closely held investment](#) under “Definitions” (ET section 0.400 paragraph .23 [AICPA, *Professional Standards*]). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Use of a Third-Party Service Provider”](#) interpretation of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.150.040). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Alternative Practice Structures”](#) interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.220.020). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Loans and Leases With Lending Institutions”](#) interpretation of the “Independence Rule.” (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Association With an Entity That Has a Loan To or From an Attest Client”](#) interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.260.050). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Use of a Third-Party Service Provider”](#) interpretation of the “General Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.300.040). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Tax Matters”](#) interpretation of the “Contingent Fees Rule” (AICPA, *Professional Standards*, ET sec. 1.510.010). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Disclosing Information to a Third-Party Service Provider”](#) interpretation of the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.040). (Revised pronouncement issued May 2011. Effective May 31, 2011.)
- [“Ownership of a Separate Business”](#) interpretation of the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.810.010). (Revised pronouncement issued May 2011. Effective May 31, 2011.)

0.600.020 Pending Interpretations

.01 Periodically, new or revised authoritative ethics [interpretations](#) are issued. This section lists the title and citation of any pending new or revised [interpretations](#) until they are effective and notes whether early application is permitted or encouraged. Once the [interpretation](#) becomes effective, it will appear under the “New and Revised Interpretation” section of the preface (AICPA, *Professional Standards*, ET sec. 0.600.010). An [interpretation](#) maybe incorporated into the Code before its effective date:

- [“Client Affiliates”](#) interpretation of the “Independence Rule (AICPA, *Professional Standards*, ET sec. 1.224.010).” (New pronouncement issued

November 2011. Effective for engagements covering periods beginning on or after January 1, 2014.)

- [Partner equivalent](#) under the “Definitions” section (ET section 0.400 paragraph .35 [AICPA, *Professional Standards*]). (New definition added March 2013, effective for engagements covering periods beginning on or after December 15, 2014.)
- Revision to [covered member](#) under the “Definitions” section (ET section 0.400 paragraph .11 [AICPA, *Professional Standards*]) for partner equivalents (Revised March 2013, revisions effective for engagements covering periods on or after December 15, 2014).
- Revision to example b in the familiarity threat paragraph of the “[Conceptual Framework for Independence](#)” (AICPA, *Professional Standards*, ET sec. 1.210.010 par. .13) for partner equivalents. (Revised March 2013, revisions effective for engagements covering periods on or after December 15, 2014).
- Revision to paragraph .03 of the “[Close Relative](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.270.100) for partner equivalents. (Revised March 2013, revisions effective for engagements covering periods on or after December 15, 2014).
- Revision to the “Activities Related to Attest Services” section of the “[Scope and Applicability of Nonattest Services](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295.010 par. .06) that require activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations to be subject to this interpretation. (Revised March 2013, revisions effective for engagements covering periods beginning on or after December 15, 2014).
- Revisions to the “[Internal Audit](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295.150). (Revised March 2013, revisions effective for engagements covering periods beginning on or after December 15, 2013. Early implementation is allowed).
- Revisions to paragraph .04 of the “[Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.297.020) for partner equivalents. (Revised March 2013, revisions effective for engagements covering periods on or after December 15, 2014)
- “[Conceptual Framework for Members in Public Practice](#)” (AICPA, *Professional Standards*, ET sec. 1.000.010). (New pronouncement effective December 15, 2015.)
- “[Conceptual Framework for Members in Business](#)” (AICPA, *Professional Standards*, ET sec. 2.000.010). (New pronouncement effective December 15, 2015.) [No prior reference: new content]

0.700 Deleted Standards

.01 The following standards that were deleted from the AICPA Code over the past 10 years:

- Definition of *holding out* of ET section 92, *Definitions* (AICPA, *Professional Standards*, ET sec. 92 par. .12) (Deleted March 2013, effective May 31, 2013)
- Ethics Ruling No. 65, “Use of the CPA Designation by Member Not in Public Practice,” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .130) (Deleted March 2013, effective May 31, 2013)
- Ethics Ruling No. 38, “CPA Title, Controller of Bank,” of ET section 591, *Ethics Rulings on Other Responsibilities and Practices*, (AICPA, *Professional Standards*, ET sec. 591 par. .075–.076) (Deleted March 2013, effective May 31, 2013)
- Ethics Ruling No. 78, “Letterhead: Lawyer-CPA” of ET section 591, *Ethics Rulings on Other Responsibilities and Practices*, (AICPA, *Professional Standards*, ET sec. 591 par. .155–.156) (Deleted March 2013, effective May 31, 2013)
- Ethics Ruling No. 134, “Association of Accountants Not Partners,” of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .267–.268) (Deleted August 2012)
- Ethics Ruling No. 74, “Audits, Reviews, or Compilations and a Lack of Independence” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .148–.149) (Deleted April 2012).
- Ethics Ruling No. 135, “Association of Firms Not Partners,” of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .269–.270) (Deleted April 2012).
- Interpretation No. 101-8, "Effect on Independence of Financial Interests in Nonclients Having Investor or Investee Relationships With a Covered Member’s Client," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .10) (Deleted November 2011. **Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18**).
- Ethics Ruling No. 9, "Member as Representative of Creditor’s Committee," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .017–.018) (Deleted November 2011)
- Ethics Ruling No. 10, "Member as Legislator," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .019–.020) (Deleted November 2011)

- Ethics Ruling No. 12, "Member as Trustee of Charitable Foundation," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .023–.024) (Deleted November 2011)
- Ethics Ruling No. 16, "Member on Board of Directors of Nonprofit Social Club," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .031–.032) (Deleted November 2011)
- Ethics Ruling No. 19, "Member on Deferred Compensation Committee," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .037–.038) (Deleted November 2011)
- Ethics Ruling No. 21, "Member as Director and Auditor of an Entity's Profit Sharing and Retirement Trust," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .041–.042) (Deleted November 2011. **Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18**)
- Ethics Ruling No. 29, "Member as Bondholder," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .057–.058) (Deleted November 2011)
- Ethics Ruling No. 38, "Member as Co-Fiduciary With Client Bank," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .075–.076) (Deleted November 2011. **Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18**)
- Ethics Ruling No. 48, "Faculty Member as Auditor of a Student Fund," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .095–.096) (Deleted November 2011)
- Ethics Ruling No. 60, "Employee Benefit Plans—Member's Relationships With Participating Employer," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .119–.120) (Deleted November 2011. **Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18**)
- Ethics Ruling No. 69, "Investment With a General Partner," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .138–.139) (Deleted November 2011. **Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18**)
- Ethics Ruling No. 81, "Member's Investment in a Limited Partnership," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .162–.163) (Deleted November 2011.)

Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18)

- Ethics Ruling No. 98, "Member's Loan From a Nonclient Subsidiary or Parent of an Attest Client," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .196–.197) (Deleted November 2011. ***Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18)***)
- Ethics Ruling No. 103, "Attest Report on Internal Controls," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .206–.207) (Deleted November 2011)
- Ethics Ruling No. 106, "Member Has Significant Influence Over an Entity That Has Significant Influence Over a Client," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .212–.213) (Deleted November 2011. ***Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18)***)
- Ethics Ruling No. 111, "Employee Benefit Plan Sponsored by Client," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .222–.223) (Deleted November 2011. ***Reestablished and effective October 31, 2012 until the earlier of January 1, 2014, or adoption of Interpretation 101-18)***)
- Ethics Ruling No. 11, "Applicability of Rule 203 to Members Performing Litigation Support Services," of ET section 291, *Ethics Rulings on General and Technical Standards* (AICPA, *Professional Standards*, ET sec. 291 par. .021–.022) (Deleted November 2011)
- Ethics Ruling No. 2, "Fees: Collection of Notes Issued in Payment," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .003–.004) (Deleted November 2011)
- Ethics Ruling No. 33, "Course Instructor," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .065–.066) (Deleted November 2011)
- Ethics Ruling No. 108, "Member Interviewed by the Press," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .215–.216) (Deleted November 2011)
- Ethics Ruling No. 117, "Consumer Credit Company Director," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .233–.234) (Deleted November 2011)

- Ethics Ruling No. 140, "Political Election," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .279–.280) (Deleted November 2011)
- Ethics Ruling No. 144, "Title: Partnership Roster," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .287–.288) (Deleted November 2011)
- Ethics Ruling No. 176, "Member's Association With Newsletters and Publications," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .351–.352) (Deleted November 2011)
- Ethics Ruling No. 177, "Data Processing: Billing Services," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .353–.354) (Deleted November 2011)
- Ethics Ruling No. 179, "Practice of Public Accounting Under Name of Association or Group," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .357–.358) (Deleted November 2011)
- Ethics Ruling No. 101, "Client advocacy and Expert Witness Services," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .202–.203) (Deleted July 2007)
- Ethics Ruling No. 182, "Termination of Engagement Prior to Completion," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .363–.364) (Deleted April 2006).
- Ethics Ruling No. 1, "Acceptance of a Gift," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .001–.002) (Deleted January 2006).
- Ethics Ruling No. 35, "Stockholder in Mutual Funds" of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .069–.070) (Deleted December 2005).
- Ethics Ruling No. 36, "Participant in Investment Club" of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .071–.072) (Deleted December 2005).
- Ethics Ruling No. 79, "Member's Investment in a Partnership That Invests in Client" of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .158–.159) (Deleted December 2005).

- Ethics Ruling No. 109, “Member’s Investment in Financial Services Products that Invest in Clients” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .218–.219) (Deleted December 2005).
- Ethics Ruling No. 66, “Member’s Retirement or Savings Plan Has Financial Interest in Client” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .132–.133) (Deleted December 2005).
- Ethics Ruling No. 68, “Blind Trust” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .136–.137) (Deleted December 2005).
- Ethics Ruling No. 5, “Records Retention Agency” of ET section 391, *Ethics Rulings on Responsibilities to Clients* (AICPA, *Professional Standards*, ET sec. 391 par. .009–.010) (Deleted October 2004).
- Interpretation No. 101-13, "Extended Audit Services," under Rule 101 , *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .15) (Deleted September 2003).
- Ethics Ruling No. 104, “Operational Auditing Services” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .208–.209) (Deleted September 2003).
- Ethics Ruling No. 105, “Frequency of Performance of Extended Audit Procedures” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .210–.211) (Deleted September 2003).
- Ethics Ruling No. 77, “Individual Considering or Accepting Employment with the Client” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .154–.155) (Deleted April 2003).
[No prior reference: new content]

The content of these deleted standards is available in a nonauthoritative document at <http://aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Deletions.pdf>.

Part 1: Members in Public Practice

1.000 Introduction

- .01 Part 1 of the AICPA Code of Professional Conduct (AICPA Code) applies to members in public practice. Accordingly, when the term member is used in part 1 of the AICPA Code, the requirements apply only to members in public practice. When a member in public practice is also a member in business (for example, serves as a member of an entity's board of directors), the member should also consult part 2 of the AICPA Code, which applies to a member in business.
- .02 Government auditors within a government audit organization who audit federal, state or local governments or component units thereof, that are structurally located with the government audit organization, would be considered in public practice with respect to those entities provided the head of the audit organization meets one of the organizational structures described in paragraph .06bi–iii of ET section .400, “Definitions” (AICPA, *Professional Standards*), the client definition. [No prior reference: new content]

1.000.010 Conceptual Framework for Members in Public Practice

Introduction

- .01 Members may encounter various relationships or circumstances that create threats to the member's compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is an unacceptable threat to the member's compliance with the rules. When making that evaluation, the member should apply the conceptual framework approach as outlined in this interpretation.
- .02 There are circumstances in which the AICPA Code specifies that no safeguards can reduce a threat to an acceptable level. In such circumstances, a member may not use the conceptual framework to overcome a prohibition or requirement specifically contained in the AICPA Code. For example, the AICPA Code specifies that a member may not subordinate the member's professional judgment to others without violating the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.100.001).
- .03 The “Conceptual Framework for Independence” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.210.010) provides authoritative guidance that members should use when making decisions on independence matters that are not explicitly addressed by the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.200.001) and its interpretations.

Definitions Used in Applying the Conceptual Framework

- .04 Acceptable level.** A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's compliance with the rules is not compromised.
- .05 Threats.** Relationships or circumstances that could compromise a member's compliance with the rules.

Conceptual Framework Approach

- .06** Under the conceptual framework approach, members should identify threats to compliance with the rules and evaluate the significance of those threats. Members should evaluate identified threats both individually and in the aggregate because threats can have a cumulative effect on a member's compliance with the rules. Members should perform three main steps in applying the conceptual framework approach:
- a. *Identify threats.* The relationships or circumstances that a member encounters in various engagements and work assignments will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule or an interpretation, under this approach, the member should determine whether the relationship or circumstance creates one or more threats, such as those identified in paragraphs .09–.15 that follow. The existence of a threat does not mean that the member is in violation of the rules; however, the member should evaluate the significance of the threat.
 - b. *Evaluate the significance of a threat.* In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules. Members should consider both qualitative and quantitative factors when evaluating the significance of a threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. If the member evaluates the threat and concludes that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat does not compromise a member's compliance with the rules, the threat is at an acceptable level, and the member is not required to evaluate the threat any further under this conceptual framework approach.
 - c. *Identify and apply safeguards.* If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the effectiveness of the safeguards will vary, depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats. In some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an

acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member's compliance with the rules, and the member should determine whether to decline or discontinue the professional services or resign from the engagement.

Threats

- .07** Many threats fall into one or more of the following seven broad categories: adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence.
- .08** Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the AICPA Code. Paragraphs .09–.15 that follow define and provide examples, which are not all inclusive, of each of these threat categories.
- .09** **Adverse interest threat.** The threat that a member will not act with objectivity because the member's interests are opposed to the client's interests. Examples of adverse interest threats include the following:
- a. The client has expressed an intention to commence litigation against the member.
 - b. A client or officer, director, or significant shareholder of the client participating in litigation against the firm.
 - c. A subrogee asserting a claim against the firm for recovery of insurance payments made to the client.
 - d. A class action lawsuit filed against the client and its officers and directors and the firm and its professional accountants.
- .10** **Advocacy threat.** The threat that a member will promote a client's interests or position to the point that his or her objectivity or independence is compromised. Examples of advocacy threats include the following:
- a. A member provides forensic accounting services to a client in litigation or a dispute with third parties.
 - b. A firm acts as an investment adviser for an officer, a director, or a 10 percent shareholder of a client.
 - c. A firm underwrites or promotes a client's shares.
 - d. A firm acts as a registered agent for a client.
 - e. A member endorses a client's services or products.
- .11** **Familiarity threat.** The threat that, due to a long or close relationship with a client, a member will become too sympathetic to the client's interests or too accepting of the client's work or product. Examples of familiarity threats include the following:

- a. A member's immediate family or close relative is employed by the client.
 - b. A member's close friend is employed by the client.
 - c. A former partner or professional employee joins the client in a key position and has knowledge of the firm's policies and practices for the professional services engagement.
 - d. Senior personnel have a long association with a client.
 - e. A member has a significant close business relationship with an officer, a director, or a 10 percent shareholder of a client.
- .12 Management participation threat.** The threat that a member will take on the role of client management or otherwise assume management responsibilities, such as during an engagement to provide nonattest services.
- .13 Self-interest threat.** The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client. Examples of self-interest threats include the following:
- a. The member has a financial interest in a client, and the outcome of a professional services engagement may affect the fair value of that financial interest.
 - b. The member's spouse enters into employment negotiations with the client.
 - c. A firm enters into a contingent fee arrangement for a tax refund claim that is not a predetermined fee.
 - d. Excessive reliance on revenue from a single client.
- .14 Self-review threat.** The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or an individual in the member's firm and that the member will rely on that service in forming a judgment as part of another service. Examples of self-review threats include the following:
- a. The member relies on the work product of the member's firm.
 - b. The member performs bookkeeping services for a client.
 - c. A partner in the member's office was associated with the client as an employee, an officer, a director, or a contractor.
- .15 Undue influence threat.** The threat that a member will subordinate judgment to that of an individual associated with a client or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. Examples of undue influence threats include the following:
- a. The firm being threatened with dismissal from a client engagement.
 - b. The client indicating that it will not award additional engagements to the firm if the firm continues to disagree with the client on an accounting or tax matter.

- c. An individual associated with a client or any relevant third party threatens to withdraw or terminate a professional service unless the member reaches certain judgments or conclusions.

Safeguards

- .16 Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.
- .17 Safeguards used by the member to eliminate a threat or reduce it to an acceptable level fall into three broad categories:
 - a. Safeguards created by the profession, legislation, or regulation.
 - b. Safeguards implemented by the client. It is not possible to rely solely on safeguards implemented by the client to eliminate or reduce significant threats to an acceptable level.
 - c. Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory requirements.
- .18 The effectiveness of a safeguard depends on many factors, including those listed here:
 - a. The facts and circumstances specific to a particular situation
 - b. The proper identification of threats
 - c. Whether the safeguard is suitably designed to meet its objectives
 - d. The party(ies) who will be subject to the safeguard
 - e. How the safeguard is applied
 - f. The consistency with which the safeguard is applied
 - g. Who applies the safeguard
 - h. How the safeguard interacts with a safeguard from another category
 - i. Whether the client is a public interest entity
- .19 Examples of safeguards within each category are presented in the following paragraphs. Because these are only examples and are not intended to be all inclusive, it is possible that threats may be sufficiently mitigated through the application of other safeguards not specifically identified herein.
- .20 The following are examples of safeguards created by the profession, legislation, or regulation:
 - a. Education and training requirements on independence and ethics rules
 - b. Continuing education requirements on independence and ethics
 - c. Professional standards and threat of discipline

- d. External review of a *firm's* quality control system
 - e. Legislation establishing prohibitions and requirements for a *firm* or a *firm's* professional employees
 - f. Competency and experience requirements for professional licensure
 - g. Professional resources, such as hotlines, for consultation on ethical issues
- .21** Examples of *safeguards* implemented by the *client* that would operate in combination with other *safeguards* are as follows:
- a. The *client* has personnel with suitable skill, knowledge, or experience who make managerial decisions with respect to the delivery of *professional services*.
 - b. A tone at the top that emphasizes the *client's* commitment to fair financial reporting and compliance with the applicable laws, regulations, and corporate governance policies.
 - c. Policies and procedures that are designed to achieve fair financial reporting and compliance with the applicable laws, regulations, and corporate governance policies.
 - d. Policies and procedures addressing ethical conduct.
 - e. A governance structure, such as an active audit committee, that is designed to ensure appropriate decision making, oversight, and communications regarding a *firm's* services.
 - f. Policies that dictate the types of services that the entity can hire a *firm* to provide without causing the *firm's independence* or objectivity to be considered impaired or that do not serve the public interest.
- .22** The following are examples of *safeguards* implemented by the *firm*:
- a. *Firm* leadership that stresses the importance of complying with the rules and the expectation that engagement teams will act in the public interest.
 - b. Policies and procedures that are designed to implement and monitor engagement quality control.
 - c. Documented policies regarding the identification of threats to compliance with the rules, the evaluation of the significance of those threats, and the identification and application of *safeguards* that can eliminate identified threats or reduce them to an acceptable level.
 - d. Internal policies and procedures that are designed to monitor compliance with the *firm's* policies and procedures.
 - e. Policies and procedures that are designed to identify interests or relationships between the *firm* or its *partners* and professional staff and the *firm's clients*.
 - f. The use of different *partners*, *partner equivalents*, and engagement teams from different offices or that report to different supervisors.

- g. Training on, and timely communication of, a *firm's* policies and procedures and any changes to them for all *partners* and professional staff.
- h. Policies and procedures that are designed to monitor the *firm's*, *partner's*, or *partner equivalent's* reliance on revenue from a single *client* and that, if necessary, cause action to be taken to address excessive reliance.
- i. Designating someone from senior management as the person who is responsible for overseeing the adequate functioning of the *firm's* quality control system.
- j. A means for informing *partners* and professional staff of *attest clients* and related entities from which they must be independent.
- k. A disciplinary mechanism that is designed to promote compliance with policies and procedures.
- l. Policies and procedures that are designed to empower staff to communicate to senior members of the *firm* any engagement issues that concern them without fear of retribution.
- m. Policies and procedures relating to *independence* and ethics communications with audit committees or others charged with *client* governance.
- n. Discussing *independence* and ethics issues with the audit committee or others responsible for the *client's* governance.
- o. Disclosures to the audit committee or others responsible for the *client's* governance regarding the nature of the services that are or will be provided and the extent of the fees charged or to be charged.
- p. The involvement of another professional accountant who (i) reviews the work that is done for a *client* or (ii) otherwise advises the engagement team. This individual could be someone from outside the *firm* or someone from within the *firm* who is not otherwise associated with the engagement.
- q. Consultation on engagement issues with an interested third party, such as a committee of independent directors, a professional regulatory body, or another professional accountant.
- r. Rotation of senior personnel who are part of the engagement team.
- s. Policies and procedures that are designed to ensure that members of the engagement team do not make or assume responsibility for management decisions for the *client*.
- t. The involvement of another *firm* to perform part of the engagement.
- u. The involvement of another *firm* to reperform a nonattest service to the extent necessary to enable it to take responsibility for that service.
- v. The removal of an individual from an *attest engagement team* when that individual's *financial interests* or relationships pose a threat to *independence* or objectivity.
- w. A consultation function that is staffed with experts in accounting, auditing, *independence*, ethics, and reporting matters who can help engagement teams (i)

assess issues when guidance is unclear or when the issues are highly technical or require a great deal of judgment and (ii) resist undue pressure from a *client* when the engagement team disagrees with the *client* about such issues.

- x. *Client* acceptance and continuation policies that are designed to prevent association with *clients* that pose an unacceptable threat to the *member's* compliance with the rules.
- y. Policies that preclude audit *partners* or *partner equivalents* from being directly compensated for selling nonattest services to the *attest client*.
- z. Policies and procedures addressing ethical conduct and compliance with laws and regulations. [No prior reference: new content]

Effective Date

.23 The “Conceptual Framework for Members in Public Practice” (AICPA, *Professional Standards*, ET sec. 1.000.010) is effective December 15, 2015.

1.000.020 Ethical Conflicts

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

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

- .06** If the ethical conflict remains unresolved, the *member* will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the *member* should consider his or her continuing relationship with the engagement team, specific assignment, *client*, *firm*, or employer. [No prior reference: new content.]

1.100 Integrity and Objectivity

1.100.001 Integrity and Objectivity Rule

- .01 In the performance of any *professional service*, a *member* shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. [Prior reference: paragraph .01 of ET section 102]

1.100.005 Application of the Conceptual Framework for Members in Public Practice

- .01 In the absence of an *interpretation* of the “*Integrity and Objectivity Rule*” (AICPA, *Professional Standards*, ET sec. 1.100.001) that addresses a particular relationship or circumstance, a *member* should apply the “*Conceptual Framework for Members in Public Practice*” *interpretation*.
- .02 A *member* would be considered in violation of the “*Integrity and Objectivity Rule*” if the *member* cannot demonstrate that *safeguards* were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.110 Conflicts of Interest

1.110.010 Conflicts of Interest

- .01 In performing a *professional service* for a *client*, a conflict of interest may occur if a *member* or the *member’s firm* has a relationship with another person, entity, product, or service that, in the *member’s* professional judgment, the *client* or other appropriate parties may view as impairing the *member’s* objectivity. In such situations, adverse interest or self-interest threats to the *member’s* compliance with the “*Integrity and Objectivity Rule*” may exist. The following are examples of situations in which the *member* should consider whether the *client* or other appropriate parties could view the relationship as impairing the *member’s* objectivity:
- a. A plaintiff or plaintiff’s attorney asks a *member* to perform litigation services in connection with a lawsuit filed against a *client* of the *member’s firm*.
 - b. A married couple who is undergoing a divorce asks the *member* who previously provided tax or personal financial planning (PFP) services to the couple to continue providing the services to both parties during the divorce proceedings.
 - c. In connection with a PFP engagement, a *member* plans to suggest that the *client* invest in a business in which the *member* has a *financial interest*.
 - d. A *member* provides tax or PFP services for several members of a family who may have opposing interests.
 - e. A *member* has a significant *financial interest*, is a member of management, or is in a position of influence in a company that is a major competitor of a *client* for which the *member* performs consulting services.

- f. A member serves on a city’s board of tax appeals, which considers matters involving several of the member’s tax clients.
- g. A client asks a member to provide services in connection with the purchase of real estate from another client of the member’s firm.
- h. A member refers a PFP or tax client to an insurance broker or other service provider that refers clients to the member under an exclusive arrangement to do so.
- i. A member recommends or refers a client to a service bureau in which the member or partner(s) in the member’s firm holds material financial interest(s). [Prior reference: paragraph .03 of ET section 102]
- j. A member serves as a director or an officer of a local United Way or similar organization that operates as a federated fund-raising organization from which local charities receive funds. Some of those charities are clients of the member’s firm. [Prior reference: paragraphs .186–.187 of ET section 191]
- k. A company that may or may not be a client asks the member to provide PFP or tax services to its executives, and the services could result in the member recommending to the executives actions that may be adverse to the company. [Prior reference: paragraphs .198–.199 of ET section 191]
- l. A member who is an officer, a director, or a shareholder of an entity has significant influence over the entity, and that entity has a loan to or from a client of the firm. [Prior reference: paragraphs .220–.221 of ET section 191]

.02 A member should evaluate the significance of the threats to determine if they are at an acceptable level. If, after evaluating the threats, the member determines that the threats are so significant that no safeguards could eliminate or reduce the threat to an acceptable level, therefore impairing the member’s objectivity, the member should either not perform the professional service or terminate one or more of the relationships that are causing the conflict.

.03 A member may perform the professional service if he or she determines that the service can be performed with objectivity because the threats are not significant or can be reduced to an acceptable level through the application of safeguards. Threats to objectivity would be at an acceptable level and objectivity would not be impaired if the following safeguards are met before performing the professional service:

- a. The member notifies the client or other appropriate parties of the relevant facts and circumstances.
- b. The member obtains consent from the client or other appropriate parties to perform the professional service. If consent is refused, the member should either not perform the professional service or terminate one or more of the relationships that are causing the conflict. When making the disclosure, the member should consider the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.001).

- .04 Certain professional engagements, such as audits, reviews, and other attest services, require *independence*. *Independence* impairments addressed in the “[Independence Rule](#)” (AICPA, *Professional Standards*, ET sec. 1.200.001) and its *interpretations* cannot be eliminated by such disclosure and consent. [Prior reference: paragraph .03 of ET section 102]

A nonauthoritative answer to a frequently asked question (FAQ) regarding independent contractors retained by the firm who are simultaneously employed or associated with an attest client is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.110.020 Director Positions

- .01 When a *member* serves as a director of an entity, such as a bank, the *member's* fiduciary responsibilities to the entity may create threats to the *member's* compliance with the “[Integrity and Objectivity Rule](#)” and the “Confidential Client Information Rule.” For example, an adverse interest threat to the *member's* objectivity may exist if the *member's clients* are customers of the entity or likely to engage in significant transactions with the entity. A *member's* general knowledge and experience may be very helpful to an entity in formulating policies and making business decisions. Nevertheless, if the *member's clients* are likely to engage in significant transactions with the entity, it would be more appropriate for the *member* to serve as a consultant to the board. Under such an arrangement, the *member* could limit activities to those that do not threaten the *member's* compliance with these rules. If, however, the *member* serves as a board member, the *member* should evaluate the significance of any threats and apply *safeguards*, when necessary, to eliminate or reduce the threats to an acceptable level. [Prior reference: paragraphs .170–.171 of ET section 191. Substantive change to prior guidance proposed.]
- .02 Refer to the “[Disclosing Client Information in Director Positions](#)” interpretation of the “Confidential Client Information Rule” for additional guidance (AICPA, *Professional Standards*, ET sec. 1.700.080). [Prior reference: paragraphs .170–.171 of ET section 191]

1.120 Gifts and Entertainment

1.120.010 Offering or Accepting Gifts or Entertainment

- .01 For purposes of this interpretation, a client includes the *client*, an individual in a *key position* with the *client*, or an individual owning 10 percent or more of the *client's* outstanding equity securities or other ownership interests.
- .02 When a *member* offers or accepts gifts or entertainment to or from a client, self-interest, familiarity, or undue influence threats to the *member's* compliance with the “[Integrity and Objectivity Rule](#)” may exist.

- .03** Threats to compliance with the [“Integrity and Objectivity Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#) and the [member](#) would be presumed to lack integrity in violation of the [“Integrity and Objectivity Rule”](#) if the [member](#) offers or accepts gifts or entertainment to or from a client that the [member](#) knows, or is reckless in not knowing, would violate the [member’s](#) or [client’s](#) policies or applicable laws and regulations.
- .04** A [member](#) should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The [member](#) should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. Examples of relevant facts and circumstances are the following:
- a. The nature of the gift or entertainment
 - b. The occasion giving rise to the gift or entertainment
 - c. The cost or value of the gift or entertainment
 - d. The nature, frequency, and value of other gifts and entertainment offered or accepted
 - e. Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
 - f. Whether other clients also participated in the entertainment
 - g. The individuals from the client and [member’s firm](#) who participated in the entertainment
- .05** Threats to compliance with the [“Integrity and Objectivity Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards and the [member](#) would be considered to lack objectivity in violation of the [“Integrity and Objectivity Rule”](#) if a [member](#) offers or accepts gifts or entertainment to or from a client that is not reasonable in the circumstances.
- .06** Refer to the [“Offering or Accepting Gifts or Entertainment” interpretation](#) of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.285.010) for additional guidance. [Prior reference: paragraphs .226–.227 of ET section 191]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Gifts_Basis_Document.pdf.

A nonauthoritative answer to an FAQ regarding campaign contributions made to the campaign of an individual that is associated with an attest client in a key position or holds a financial interest in an attest client that is either material or enables the individual to exercise significant influence over the attest client, or both, is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.130 Preparing and Reporting Information

1.130.010 Knowing Misrepresentations in the Preparation of Financial Statements or Records

- .01 Threats to compliance with the “Integrity and Objectivity Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the member would be considered to have knowingly misrepresented facts in violation of the “Integrity and Objectivity Rule” if the member
- makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records;
 - fails to correct an entity’s financial statements or records that are materially false and misleading when the member has the authority to record the entries; or
 - signs, or permits or directs another to sign, a document containing materially false and misleading information. [Prior reference: paragraph .02 of ET section 102]

1.130.020 Subordination of Judgment

- .01 The “Integrity and Objectivity Rule” prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services. When a member and his or her supervisor have a disagreement or dispute relating to the preparation of a client’s financial statements or the recording of transactions, the following safeguards should be met to ensure that any self-interest, familiarity, and undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” are at an acceptable level:
- The member should refer to the guidance in AU section 311, *Planning and Supervision* (AICPA, *Professional Standards*), which discusses what the auditor should do when differences of opinion exist concerning accounting and auditing standards.
 - The member should determine whether (i) the entry or failure to record a transaction in the records or (ii) the financial statements’ presentation or nature or omission of disclosure in the financial statements the supervisor proposed represents the use of an acceptable alternative and does not materially misrepresent the facts. If, after appropriate research or consultation, the member concludes that the matter has authoritative support or does not result in a material misrepresentation, or both, the member need do nothing further.
 - If the member concludes that the financial statements or records could be materially misstated, the member should make the member’s concerns known to the appropriate higher level(s) of management within the firm. The member should consider documenting the member’s understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.

- .02 If, after discussing the member's concerns with the appropriate person(s) in the firm, the member concludes that appropriate action was not taken, the member should consider his or her continuing relationship with the firm. The member also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the client's board of directors, owners, or audit committee. In this connection, the member may wish to consult with the member's legal counsel. [Prior reference: paragraph .05 of ET section 102]

1.140 Client Advocacy

1.140.010 Client Advocacy

- .01 When a member or the member's firm is engaged to perform nonattest services, such as tax and consulting services, that involve acting as an advocate for the client or to support a client's position on accounting or financial reporting issues either within the firm or outside the firm with standard setters, regulators, or others, an advocacy threat to compliance with the "Integrity and Objectivity Rule" may exist.
- .02 The AICPA Code governs these types of professional services, and the member shall perform such services in compliance with the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.300.001); the "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001); the "Accounting Principles Rule" (AICPA, *Professional Standards*, ET sec. 1.320.001); and any interpretations thereof. The member shall also comply with the "Integrity and Objectivity Rule" that requires maintaining objectivity and integrity and prohibits subordinating one's judgment to others.
- .03 Some professional services involving client advocacy may stretch the bounds of performance standards, go beyond sound and reasonable professional practice, or compromise credibility, thereby creating threats to the member's compliance with the rules and damaging the reputation of the member and the member's firm. If such circumstances exist, the member and member's firm should determine whether it is appropriate to perform the professional services.
- .04 When performing professional services requiring independence, a member shall also comply with the "Independence Rule." [Prior reference: paragraph .07 of ET section 102]

1.150 Use of a Third-Party Service Provider

1.150.040 Use of a Third-Party Service Provider

- .01 When a member uses a third-party service provider to assist the member in providing professional services, threats to compliance with the "Integrity and Objectivity Rule" may exist.
- .02 Clients might not have an expectation that a member would use a third-party service provider to assist the member in providing the professional services. Therefore, before

disclosing *confidential client information* to a *third-party service provider*, the *member* should inform the *client*, preferably in writing, that the *member* may use a *third-party service provider*. If the *client* objects to the *member's* use of a *third-party service provider*, the *member* should either not use the *third-party service provider* to perform the *professional services* or decline to perform the engagement.

- .03 A *member* is not required to inform the *client* when he or she uses a *third-party service provider* to provide administrative support services to the *member* (for example, record storage, software application hosting, or authorized e-file tax transmittal services).
- .04 Refer to the “*Use of a Third-Party Service Provider*” interpretation of the “General Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.300.040) and the “*Disclosing Information to a Third-Party Service Provider*” interpretation of the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.040) for additional guidance. [Prior reference: paragraphs .224–.225 of ET section 191]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsOutsourcing.pdf.

In addition, nonauthoritative sample client disclosure language that could be used to fulfill the requirement discussed in this interpretation is also available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Sample_Disclosure_Notification.pdf.

1.200 Independence

1.200.001 Independence Rule

- .01 A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council. [Prior reference: paragraph .01 of ET section 101]

1.200.005 Application of the Conceptual Framework for Independence

- .01 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 of the “Independence Rule.”
- .02 A member would be considered in violation of the “Independence Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [Prior reference: “Other Considerations” section of paragraph .02 of ET section 101]

1.210 Conceptual Framework Approach

1.210.010 Conceptual Framework for Independence

Introduction

- .01 It is impossible to enumerate all relationships or circumstances in which the appearance of independence might be questioned. Thus, the absence of an independence interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is an unacceptable threat to the member’s or firm’s independence, or both. When making that evaluation, a member should apply the conceptual framework approach as outlined in this interpretation to analyzing independence matters. In addition, a member may also wish to consider the conceptual framework approach described in this interpretation to gain a better understanding of the conclusions reached in other interpretations located in ET section 1.200, “Independence”. [Prior reference: “Other Considerations” section of paragraph .02 of ET section 101]
- .02 There are circumstances in which the AICPA Code specifies that no safeguards can reduce an independence threat to an acceptable level. In such circumstances, a member may not use the conceptual framework to overcome a prohibition or requirement specifically contained in an independence interpretation. For example, the AICPA Code specifies that a covered member may not own even an immaterial direct financial interest in an attest client because there is no safeguard to reduce the self-interest threat to an acceptable level.

Definitions Used in Applying the Conceptual Framework for Independence

- .03 Acceptable level.** A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's independence is not impaired.
- .04 Impair.** With respect to independence, impair means to effectively extinguish independence. When a member's independence is impaired, the member is not independent.
- .05 Threats.** Relationships or circumstances that could impair independence.

Conceptual Framework Approach

- .06** The conceptual framework approach entails identifying threats and evaluating the threat that the member would not be independent or would be perceived by a reasonable and informed third party who is aware of the relevant information as not being independent. That threat must be eliminated or reduced to an acceptable level to conclude that a member is independent under the concepts in this interpretation. Threats are at an acceptable level either because of the types of threats and their potential effect or because safeguards have eliminated or reduced the threat, so that a reasonable and informed third party who is aware of the relevant information would expect that the member's professional judgment is not compromised.
- .07** Refer to paragraph .06 of the "Conceptual Framework for Members in Public Practice" for a detailed description of the conceptual framework approach.

Documentation

- .08** When the member applies safeguards to eliminate or reduce significant threats to an acceptable level, as described in paragraph .06c of the "Conceptual Framework for Members in Public Practice," the member should document the identified threats and safeguards applied. Failure to prepare the required documentation would be considered a violation of the "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001), not the "Independence Rule," provided that the member can demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [Prior reference: "Other Considerations" section of paragraph .02 of ET section 101]

Threats

- .09** Many different relationships or circumstances (or combinations of relationships or circumstances) can create threats to compliance with the "Independence Rule." It is impossible to identify every relationship or circumstance that creates a threat. Many threats fall into one or more of the following seven broad categories: adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence.

- .10** Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the AICPA Code. Paragraphs .11–.17 that follow define and provide examples, which are not all inclusive, of each of these threat categories. In certain circumstances, the AICPA Code specifies that because of the type of threat and its potential effect, either no safeguards can eliminate or reduce the threat to an acceptable level, or a member would need to apply specific safeguards to eliminate or reduce an independence threat to an acceptable level. When independence interpretations contained in the AICPA Code address one of these examples, a specific reference to the independence interpretation is provided in brackets after that example. If an example does not contain a specific reference to an independence interpretation, a member should use this “Conceptual Framework for Independence” interpretation to evaluate a significant threat.
- .11 Adverse interest threat.** The threat that a member will not act with objectivity because the member’s interests are in opposition to the interests of an attest client, such as commencing, or the expressed intention to commence, litigation by either the attest client or the member against the other. [ET section 1.290.010]
- .12 Advocacy threat.** The threat that a member will promote an attest client’s interests or position to the point that his or her independence is compromised. Examples of advocacy threats include the following:
- a. A member promotes the attest client’s securities as part of an initial public offering. [ET section 1.295.130]
 - b. A member provides expert witness services to an attest client. [ET section 1.295.140]
 - c. A member represents an attest client in U.S. tax court or other public forum. [ET section 1.295.160]
- .13 Familiarity threat.** The threat that, because of a long or close relationship with an attest client, a member will become too sympathetic to the attest client’s interests or too accepting of the attest client’s work or product. Examples of familiarity threats include the following:
- a. A member of the attest engagement team has an immediate family member or close relative in a key position at the attest client, such as the attest client’s CEO. [ET sections 1.270.020 and 1.270.100]
 - b. A partner or partner equivalent of the firm has been a member of the attest engagement team for a prolonged period.
 - c. A member of the firm has recently been a director or an officer of the attest client. [ET section 1.275.100]
 - d. A member of the attest engagement team has a close friend who is in a key position at the attest client.

- .14 Management participation threat.** The threat that a member will take on the role of attest client management or otherwise assume management responsibilities for an attest client. Examples of management participation threats include the following:
- a. A member serves as an officer or a director of the attest client. [ET section 1.275.005]
 - b. A member accepts responsibility for designing, implementing, or maintaining internal controls for the attest client. [ET section 1.295.030]
 - c. A member hires, supervises, or terminates the attest client's employees. [ET section 1.295.135]
- .15 Self-interest threat.** The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, an attest client or persons associated with the attest client. Examples of self-interest threats include the following:
- a. A member has a direct financial interest or material indirect financial interest in the attest client. [ET section 1.240.010]
 - b. A member has a loan from the attest client, an officer or a director of the attest client, or an individual who owns 10 percent or more of the attest client's outstanding equity securities. [ET section 1.260.010]
 - c. A member or his or her firm relies excessively on revenue from a single attest client.
 - d. A member or member's firm has a material joint venture or other material joint business arrangement with the attest client. [ET section 1.265]
- .16 Self-review threat.** The threat that a member will not appropriately evaluate the results of a previous judgment made, or service performed or supervised by the member or an individual in the member's firm and that the member will rely on that service in forming a judgment as part of an attest engagement. Certain self-review threats, such as preparing source documents used to generate the attest client's financial statements [ET section 1.295.120], pose such a significant self-review threat that no safeguards can eliminate or reduce the threats to an acceptable level.
- .17 Undue influence threat.** The threat that a member will subordinate his or her judgment to that of an individual associated with an attest client or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. Examples of undue influence threats include the following:
- a. Management threatens to replace the member or member's firm over a disagreement on the application of an accounting principle.
 - b. Management pressures the member to reduce necessary audit procedures to reduce audit fees.
 - c. The member receives a gift from the attest client, its management, or its significant shareholders. [ET section 1.285.010]

Safeguards

- .18** Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors, including the size of the firm and whether the attest client is a public interest entity. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.
- .19** The following are three broad categories of safeguards:
- a. Safeguards created by the profession, legislation, or regulation.
 - b. Safeguards implemented by the attest client. It is not possible to rely solely on safeguards implemented by the attest client to eliminate or reduce significant threats to an acceptable level.
 - c. Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory requirements.
- .20** The effectiveness of a safeguard depends on many factors, including those listed here:
- a. The facts and circumstances specific to a particular situation
 - b. The proper identification of threats
 - c. Whether the safeguard is suitably designed to meet its objectives
 - d. The party(ies) that will be subject to the safeguard
 - e. How the safeguard is applied
 - f. The consistency with which the safeguard is applied
 - g. Who applies the safeguard
 - h. How the safeguard interacts with a safeguard from another category
 - i. Whether the attest client is a public interest entity
- .21** Examples of various safeguards within each category are presented in paragraphs .20–.22 of the “Conceptual Framework for Members in Public Practice.” The examples presented in these paragraphs are not intended to be all inclusive. In addition, threats may be sufficiently mitigated through the application of other safeguards not specifically identified in these paragraphs. [Prior reference: ET section 100-1] [Paragraph .13b revised March 2013, for the partner equivalents revisions effective for engagements covering periods beginning on or after December 15, 2014.]

1.220 Accounting Firms

A nonauthoritative answer to an FAQ regarding letter of intent to purchase practice is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.220.010 Network and Network Firms

General

- .01** To enhance their capabilities to provide *professional services*, *firms* frequently join larger groups, which typically are membership associations that are separate legal entities and otherwise unrelated to their members. The associations facilitate their members' use of association services and resources. They do not themselves typically engage in *public practice* or provide *professional services* to their members' *clients* or other third parties.
- .02** *Firms* and other entities in the association cooperate with the *firms* and other entities that are members of the association to enhance their capabilities to provide *professional services*. For example, a *firm* may become a member of an association in order to refer work to, or receive referrals from, other association members. That characteristic alone would not be sufficient for the association to constitute a *network* or for the *firm* to be considered a *network firm*.
- .03** However, an association would be considered a *network* if, in addition to cooperation among member *firms* and other entities to enhance their capabilities to provide *professional services*, member *firms* and other entities share one or more additional characteristics described in paragraphs .07–.18 that follow. Whether an association is a *network* and whether an entity is a *network firm* should be applied consistently by all members of the association. When determining if one or more additional characteristics exist, *members* should give due consideration to what a reasonable and informed third party who is aware of the relevant information would be expected to conclude.
- .04** A *network firm* is required to comply with the “*Independence Rule*” with respect to the *financial statement* audit and review *clients* of the other *network firms* if the use of the audit or review report for the *client* is not restricted, as defined by professional standards. For all other *attest clients*, the *covered member* should consider any threats that the *covered member* knows or has reason to believe may be created by another *network firm's* interests and relationships. If those threats are not at an acceptable level, the *covered member* should apply *safeguards* to eliminate the threats or reduce them to an acceptable level. If *safeguards* cannot be applied to eliminate or reduce the threats to an acceptable level, *independence* would be impaired. Entities within the *network* that meet the definition of a *network firm* are subject to the “*Independence Rule*.”
- .05** The determination that a *firm* or other entity or an association of *firms* or other entities meets the definition of a *network firm* and *network* is solely for purposes of this interpretation and may not be used or relied upon in any other context. In particular, the determination of whether a *firm* or other entity is a *network firm* or whether an

association of firms or other entities is a network for purposes of defining legal responsibilities from one firm to the other or to third parties is beyond the scope of this interpretation.

Characteristics of a Network

- .06** When an association is formed for the purpose of cooperating to enhance the firms' capabilities to provide professional services, and one of the characteristics described in paragraphs .07–.18 that follow also applies, the association is considered to be a network.
- .07** *Sharing a common brand name.* This characteristic exists when the association's members or entities controlled by the association's members share the use of a common brand name or share common initials as part of the firm name.
- .08** A firm that does not use a common brand name as part of its firm name but makes reference in its stationery or promotional materials to being a member of an association of firms should carefully consider how it describes that membership and take steps to avoid the perception that it belongs to a network. The firm may wish to avoid such perception by clearly describing the nature of its membership in the association (for example, by stating on its stationery or promotional material that it is “an independently owned and operated member firm of XYZ Association”).
- .09** *Sharing common control.* This characteristic exists when entities within the association are under common control with other firms in the association through ownership, management, or other means (for example, by contract). However, compliance with association requirements as a condition of membership does not indicate that members are under common control; rather, it reflects the type of cooperation that is expected when an entity joins the association.
- .10** *Sharing profits or costs.* This characteristic exists when entities within the association share profits or costs. Following are examples of profit and cost sharing that would not create a network:
- a. Sharing immaterial costs
 - b. Sharing costs related to operating the association
 - c. Sharing costs related to the development of audit methodologies, manuals, and training courses
 - d. Arrangements between a firm and an otherwise unrelated entity to jointly provide a service or develop a product
- .11** *Sharing a common business strategy.* This characteristic exists when entities within the association share a common business strategy. Sharing a common business strategy involves ongoing collaboration among the firms whereby the firms are responsible for implementing the association's strategy and held accountable for performance pursuant to that strategy. An entity's ability to pursue an alternative strategy may be limited by the common business strategy because, as a member, it must act in accordance with the common business strategy and, therefore, in the best interest of the association.

- .12** An entity is not considered to be a *network firm* merely because it cooperates with another entity solely to market *professional services* or respond jointly to a request for a proposal for the provision of a *professional service*.
- .13** *Sharing significant professional resources.* This characteristic exists when entities within the association share a significant part of professional resources. *Members* should consider both qualitative and quantitative factors in determining whether the shared professional resources are significant.
- .14** Examples of professional resources include the following:
- a. Common systems that enable *firms* to exchange information, such as *client* data, billing, and time records
 - b. *Partners* and staff
 - c. Technical departments to consult on technical or industry-specific issues, transactions, or events for assurance engagements
 - d. Audit methodology or audit manuals
 - e. Training courses and facilities
- .15** When shared professional resources involve the exchange of *client* information or personnel, such as when staff are drawn from a shared pool or a common technical department is created within the association to provide participating *firms* with technical advice that the *firms* are required to follow, a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the shared professional resources are significant.
- .16** When the entities within the association do not share a significant amount of human resources (for example, a *firm* occasionally uses personnel of another member *firm* to assist with an engagement, such as observing a *client's* physical inventory count) or significant *client* information (for example, *client* data, billing, and time records) and have the ability to make independent decisions regarding technical matters, audit methodology, training, and the like, the entities are not considered to be sharing a significant part of professional resources.
- .17** When the shared professional resources are limited to a common audit methodology, audit manuals, training courses, or facilities and do not include a significant amount of human resources or *clients* or markets, the shared professional resources are not considered significant.
- .18** *Sharing common quality control policies and procedures.* This characteristic exists when entities within the association are required to follow common quality control policies and procedures that the association monitors. Monitoring is the ongoing consideration and evaluation of the *firms'* systems of quality control, which enables the association to obtain reasonable assurance that the *firms'* systems of quality control are designed appropriately and operating effectively.

- .19** This interpretation is effective for engagements covering periods beginning on or after July 1, 2011.
- .20** Refer to paragraph .03d of the “[Application of the AICPA Code](#)” section of the preface (AICPA, *Professional Standards*, ET sec. 0.200.020) for additional guidance. [Prior reference: paragraph .19 of ET section 101]

Nonauthoritative implementation guidance can be found at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics%20Division%20Network%20Firm%20Implementation%20Guidance.docx.

Nonauthoritative frequently asked questions (FAQs) and case studies can be found at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/2011AugustNetworkFirmFAQandCaseStudies.pdf

1.220.020 Alternative Practice Structures

- .01** *Members* practicing public accounting in nontraditional practice structures (alternative practice structures [APS]) should apply this interpretation to determine whether they are in compliance with the “[Independence Rule](#).”
- .02** All such structures must be organized in a form that complies with applicable laws, regulations, the “[Form of Organization and Name Rule](#)” (AICPA, *Professional Standards*, ET sec. 1.800.001) and the related “[Alternative Practice Structures](#)” interpretation of the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.810.050).
- .03** For example, in an APS, a substantial (the nonattest) portion of a *member’s* practice may be conducted under public or private ownership, and the attest portion of the practice may be conducted through a separate *firm* that the *member* owns and *controls*.

Terminology

- .04** The following terms are defined solely for the purpose of applying this interpretation:
- APS is a form of organization in which a *firm* that provides attest services is closely aligned with another public or private organization that performs other *professional services*.
 - A covered member includes both employed and leased individuals who meet the definition of a *covered member*.
 - The term direct superiors includes those persons so closely associated with a *partner* or *manager* who is a covered member that such persons can directly control the *partner’s* or *manager’s* activities. For this purpose, a person who can directly control is the immediate superior of the *partner* or *manager* who has the power to direct the activities of that person so as to be able to directly or indirectly (for example, through another entity over which the direct superior can exercise significant influence) derive a benefit from that person’s activities. Examples

would be the person who has day-to-day responsibility for the activities of the partner or manager and is in a position to recommend promotions and compensation levels. This group of persons is so closely aligned through direct reporting relationships with such persons that their interests would seem to be inseparable.

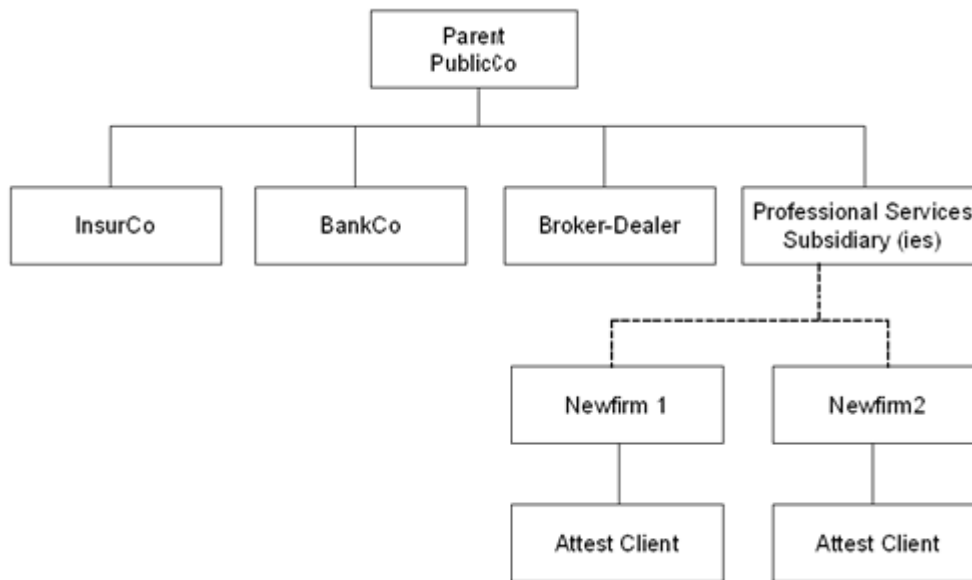
- d. Indirect superiors are not connected with partners and managers who are covered members through direct reporting relationships; rather, they are those persons who are one or more levels above direct superiors of covered members (that is, there always is a level in between). Generally, this would start with persons in an organization structure to whom direct superiors report and go up the line from there. Indirect superiors also include the immediate family of indirect superiors.
- e. Other public company entities includes the public company and all entities consolidated in the public company financial statements that are not subject to the “Independence Rule” and its interpretations in their entirety.
- f. Significant influence is having the ability to exercise significant influence over the financial, operating, or accounting policies of the entity by, for example
 - i. being connected with the entity as a promoter, an underwriter, a voting trustee, a general partner, or a director;
 - ii. being in a policy-making position, such as chief executive officer, chief operating officer, chief financial officer, or chief accounting officer; or
 - iii. meeting the criteria in Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 323-10-15 to determine the ability of an investor to exercise such influence with respect to an entity.

APS Model

- .05** The APS described in paragraphs .06–.07 and the related chart that follows provides an example of a structure in use at the time that this interpretation was developed. Many of the references in this interpretation are to the example, but members should apply the concepts in spirit and substance to variations of the example structure as they develop.
- .06** The example APS in this interpretation is one in which an existing CPA practice (Oldfirm) is sold by its owners to another (possibly public) entity (PublicCo). PublicCo has subsidiaries or divisions, such as a bank, an insurance company, or a broker-dealer. It also has one or more professional service subsidiaries (PSS) or divisions that offer nonattest services (for example, tax, personal financial planning, and management consulting) to clients. The owners and employees of Oldfirm become employees of one of PublicCo’s subsidiaries or divisions and may provide those nonattest services. In addition, the owners of Oldfirm form a new CPA firm (Newfirm) to provide attest services. CPAs, including the former owners of Oldfirm, own a majority of Newfirm (with regard to voting and financial interests). Attest services are performed by Newfirm and supervised by its owners. The arrangement between Newfirm and PublicCo (or one of its subsidiaries or divisions) includes the lease of employees, office space, and

equipment; the performance of back-office functions, such as billing and collections; and advertising. Newfirm pays a negotiated amount for these services.

- .07 The chief executive of the local office of the PSS where the *partners* of Newfirm are employed would be a direct superior. The chief executive of the PSS itself would be an indirect superior, and there may be indirect superiors in between, such as a regional chief executive of all PSS offices within a geographic area.



Interpretation

- .08 The “[Independence Rule](#)” and *interpretations* normally extend only to those persons and entities included in the definition of *covered members*. However, in an APS environment, the self-interest, management participation, self-review, advocacy, or undue influence threats to a covered member’s compliance with the “[Independence Rule](#)” may not be at an acceptable level unless certain *safeguards* are implemented by other individuals or entities.
- .09 Threats to compliance with the “[Independence Rule](#)” would not be at an acceptable level and could not be reduced to an acceptable level by the application of *safeguards*, and *independence* would be impaired when the following individuals or entities fail to apply the “[Independence Rule](#)” and *interpretations* with respect to *attest clients* of Newfirm:
- Covered members of Newfirm
 - Direct superiors of any *partner* or *manager* who is a covered member of Newfirm and entities within the APS over which such individuals can exercise *significant influence*

- .10** In addition, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and independence would be impaired when
- a. indirect superiors and other public company entities have a relationship prohibited by the “Overview of Financial Interests” interpretation, the “Trustee or Executor” interpretation, the “Loans” interpretation, and the “Joint Closely Held Investments” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.240.010, 1.245.010, 1.260.010, and 1.265.020, respectively) (for example, investments, loans, and so on) with an attest client of Newfirm that is material. In making the test for materiality for financial relationships of an indirect superior, all the financial relationships with an attest client held by such person should be aggregated and, to determine materiality, assessed in relation to the person’s net worth. In making the materiality test for financial relationships of other public company entities, all the financial relationships with an attest client held by such entities should be aggregated and, to determine materiality, assessed in relation to the consolidated financial statements of PublicCo.
 - b. any other public company entity over which an indirect superior has direct responsibility has a financial relationship with an attest client during the period of the professional engagement that is material in relation to the other public company entity’s financial statements.
 - c. financial relationships of indirect superiors or other public company entities allow such persons or entities to exercise significant influence over the attest client during the period of the professional engagement. In making the test for significant influence, financial relationships of all indirect superiors and other public company entities should be aggregated.
 - d. other public company entities or any of their employees are connected with an attest client of Newfirm as a promoter, an underwriter, a voting trustee, a director, or an officer during the period of the professional engagement or during the period covered by the financial statements.
- .11** Indirect superiors and other public company entities may provide services to an attest client of Newfirm that would impair independence if performed by Newfirm, except as noted in paragraph .10d.
- .12** When Newfirm and its partners and professional employees perform attest engagements for PublicCo or any of its subsidiaries or divisions, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards. Accordingly, independence would be impaired.
- .13** If an attest client of Newfirm holds an investment in PublicCo that is material to the attest client or that allows the attest client to exercise significant influence over PublicCo during the period of the professional engagement, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an

acceptable level through the application of safeguards. Accordingly, independence would be impaired.

- .14 When making referrals of services between Newfirm and any of the entities within PublicCo, a member should consider the provisions of the “Conflicts of Interest” interpretation of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.110.010) and the “Alternative Practice Structures” interpretation of the “Form of Organization and Name Rule.” [Prior reference: paragraph .16 of ET section 101]

1.220.030 Use of a Nonindependent CPA Firm on an Engagement

- .01 If partners or professional employees from another firm that was not independent of an attest client participate on the attest engagement team, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards. Accordingly, the firm’s independence would be impaired.
- .02 However, the firm may use the work of such individuals in a manner similar to internal auditors, provided that the firm complies with AU-C section 610, *The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*). [Prior reference: paragraphs .142–.143 of ET section 191]

1.224 Affiliates, Including Governmental Units

1.224.010 Client Affiliates

- .01 Financial interests in, and other relationships with, affiliates of a financial statement attest client may create threats to a member’s compliance with the “Independence Rule.”
- .02 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, except in the following situations:
- a. A covered member may have a loan to or from an individual who is an officer, a director, or a 10 percent or more owner of an affiliate of a financial statement attest client during the period of the professional engagement unless the covered member knows or has reason to believe that the individual is in such a position with such an affiliate. If the covered member knows or has reason to believe that the individual is an officer, a director, or a 10 percent or more owner of such an affiliate, the covered member should evaluate the effect that the relationship would have on the covered member’s independence by applying the “Conceptual Framework for Independence” interpretation.
 - b. A member or the member’s firm may provide prohibited nonattest services to entities described under items c–j of the definition of affiliate during the period of the professional engagement or during the period covered by the financial statements, provided that it is reasonable to conclude that the services do not

create a self-review threat with respect to the financial statement attest client because the results of the nonattest services will not be subject to financial statement attest procedures. For any other threats that are created by the provision of the nonattest services that are not at an acceptable level (in particular, those relating to management participation), the member should apply safeguards to eliminate or reduce the threats to an acceptable level.

- c. A firm will only have to apply the “Subsequent Employment or Association With an Attest Client” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.275.210) if the former employee, by virtue of his or her employment at an entity described under items *c–j* of the definition of affiliate, is in a key position with respect to the financial statement attest client. Individuals in a position to influence the attest engagement and on the attest engagement team who are considering employment with an affiliate of a financial statement attest client will still need to report consideration of employment to an appropriate person in the firm and remove themselves from the financial statement attest engagement, even if the position with the affiliate is not a key position.
 - d. A covered member’s immediate family members and close relatives may be employed in a key position at an entity described under items *c–j* of the definition of affiliate during the period of the professional engagement or during the period covered by the financial statements, provided they are not in a key position with respect to the financial statement attest client.
- .03 A member must expend best efforts to obtain the information necessary to identify the affiliates of a financial statement attest client. If, after expending best efforts, a member is unable to obtain the information to determine which entities are affiliates of a financial statement attest client, threats would be at an acceptable level and independence would not be impaired provided that the member (a) discusses the matter, including the potential impact on independence, with those charged with governance; (b) documents the results of that discussion and the efforts taken to obtain the information; and (c) obtains written assurance from the financial statement attest client that it is unable to provide the member with the information necessary to identify the affiliates of the financial statement attest client.
- .04 This interpretation does not apply to a financial statement attest client that would be covered by the “Entities Included in State and Local Government Financial Statements” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.224.020).

Effective Date

- .05 This interpretation is effective for engagements covering periods beginning on or after January 1, 2014. Early implementation is allowed. [Prior reference: paragraph .20 of ET section 101]

1.224.020 Entities Included In State and Local Government Financial Statements

- .01** For purposes of this interpretation, a financial reporting entity's basic financial statements issued in conformity with generally accepted accounting principles (GAAP) include the following:
- a. The government-wide financial statements (consisting of the entity's governmental activities, business-type activities, and discretely presented component units)
 - b. The fund financial statements (consisting of major funds, nonmajor governmental and enterprise funds, internal service funds, blended component units, and fiduciary funds)
 - c. Other entities disclosed in the notes to the basic financial statements. Examples of other entities that should be disclosed include the following:
 - i. Related organizations
 - ii. Joint ventures
 - iii. Jointly governed organizations
 - iv. Component units of another government with characteristics of a joint venture or jointly governed organization
- .02** Except for a financial reporting entity's basic financial statements, which are defined in paragraph .01 of this interpretation, certain terminology used in this interpretation is specifically defined by the Governmental Accounting Standards Board (GASB).
- .03** When a covered member audits the basic financial statements of a financial reporting entity or the financial statements of a major fund, a nonmajor fund, an internal service fund, a fiduciary fund, or a component unit of the financial reporting entity or other entity that should be disclosed in the notes to the basic financial statements, the covered member must be independent of the entity, fund, or component unit that the covered member is auditing, as discussed in the remaining paragraphs of this interpretation.

Auditor of the Financial Reporting Entity

- .04** When a covered member audits the basic financial statements of the financial reporting entity, the covered member must also be independent of any major or nonmajor fund, internal service fund, fiduciary fund, or component unit or other entities disclosed in the financial statements unless the primary auditor explicitly states reliance on other auditors' reports.
- .05** Independence is not required with respect to an entity disclosed in the notes to the basic financial statements if the financial reporting entity is not financially accountable for the entity and the required disclosure does not include financial information. For example, a disclosure limited to the financial reporting entity's ability to appoint the governing board members would not require the covered member to be independent of that entity.
- .06** Regardless of the exceptions in paragraph .05, if a covered member or a covered member's immediate family holds a key position in any of the following entities during

the period of the professional engagement or during the period covered by the financial statements, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the covered member’s independence would be impaired:

- a. Major fund, nonmajor fund, internal service fund, fiduciary fund, or component unit of the financial reporting entity
- b. Other entity that should be disclosed in the notes to the basic financial statements

Auditor Does Not Audit the Primary Government

.07 When a covered member does not audit the primary government but audits the financial statements of the following entities, the covered member is not required to be independent of entities that the covered member does not audit:

- a. A major fund, a nonmajor fund, an internal service fund, a fiduciary fund, or a component unit of the financial reporting entity
- b. An entity that should be disclosed in the notes to the basic financial statements of the financial reporting entity

.08 However, if a covered member or a covered member’s immediate family holds a key position within the primary government during the period of the professional engagement or during the period covered by the financial statements, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the covered member’s independence would be impaired. For purposes of this interpretation, a covered member and the covered member’s immediate family would not be considered employed by the primary government if the exceptions provided for in paragraph .06b of the defined term client of ET section 0.400, “Definitions” (AICPA, *Professional Standards*) are met. [Prior reference: paragraph .12 of ET section 101]

1.226 Reissued Reports

1.226.010 Consenting to the Use of a Previously Issued Report

.01 A member or member’s firm who was in compliance with the “Independence Rule” when initially issuing a report may reissue the previously issued report or consent to, or acknowledge the inclusion or incorporation by reference of, the report when the member or member’s firm’s independence is impaired, provided that the member or member’s firm does not perform procedures that require updating the date or dual dating the report.

.02 In order to consent to, or acknowledge the inclusion or incorporation by reference of, a previously issued report, the member or member’s firm may perform procedures required by applicable professional standards when the member’s or member’s firm’s independence is impaired. Such procedures include making inquiries of successor auditors, reading the subsequent financial statements, or other procedures that the member believes are necessary to assess the effect of subsequently discovered facts on

the [financial statements](#) covered by the previously issued report. [Prior reference: paragraphs .200–.201 of ET section 191]

1.228 Engagement Contractual Terms

1.228.010 Indemnification of a Covered Member

- .01** Threats to compliance with the [“Independence Rule”](#) would be at an acceptable level and a [covered member’s independence](#) would not be impaired if the [covered member](#) includes in engagement letters a clause that provides that its [attest client](#) would release, indemnify, defend, and hold the [covered member](#) (and the [covered member’s partners](#), heirs, executors, personal representatives, successors, and assigns) harmless from any liability and costs resulting from knowing misrepresentations by management. [Prior reference: paragraphs .188–.189 of ET section 191]

1.228.020 Indemnification of an Attest Client

- .01** Threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#) and a [covered member’s independence](#) would be impaired if the [covered member](#) enters into an agreement providing, among other things, that the [covered member](#) indemnifies the [attest client](#) for damages, losses, or costs arising from lawsuits, claims, or settlements that relate, directly or indirectly, to the [attest client’s](#) acts. [Prior reference: paragraphs .204–.205 of ET section 191]

1.228.030 Alternative Dispute Resolution

- .01** A [covered member](#) may include in an engagement letter a provision to use alternative dispute resolution (ADR) techniques to resolve disputes relating to past services (in lieu of litigation). Threats to compliance with the [“Independence Rule”](#) would be at an acceptable level and [independence](#) would not be impaired because the [covered member](#) and [attest client](#) would not be in positions of material adverse interests due to threatened or actual litigation.
- .02** The [covered member](#) should not use the existence of such a provision as an excuse for not exercising professional judgment when rendering current services. [Prior reference: paragraphs .190–.191 of ET section 191]
- .03** If ADR techniques are initiated to resolve a dispute with the [attest client](#), threats to compliance with the [“Independence Rule”](#) would be at an acceptable level and [independence](#) would not be impaired when the ADR techniques are designed to facilitate negotiation, and the conduct of those negotiations does not place the [covered member](#) and the [attest client](#) in positions of material adverse interests. If, however, the ADR proceedings are sufficiently similar to litigation (as in the case of binding arbitration), an adverse interest threat may exist and place the [covered member](#) and the [attest client](#) in a position of material adverse interests. Under such circumstances, the member should apply the guidance under the [“Actual or Threatened Litigation” interpretation](#) of the

“Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.290.010.) [Prior reference: paragraphs .192–.193 of ET section 191]

1.230 Fees

A nonauthoritative answer to an FAQ regarding pro bono and below cost fees is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.230.010 Unpaid Fees

- .01 The existence of unpaid fees to a covered member for professional services previously rendered to an attest client may create self-interest, undue influence, or advocacy threats to the covered member’s compliance with the “Independence Rule.”
- .02 Threats to the covered member’s compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards if a covered member has unpaid fees from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report. Accordingly, independence would be impaired. Unpaid fees would include fees that are unbilled or a note receivable arising from such fees.
- .03 This interpretation does not apply to fees outstanding from an attest client in bankruptcy. [Prior reference: paragraphs .103–.104 of ET section 191]
- .04 Refer to the “Fees and Other Types of Remuneration” topic (AICPA, *Professional Standards*, ET sec. 1.500) for additional guidance.

1.230.020 Fees and Other Types of Remuneration

- .01 See the “Fees and Other Types of Remuneration” topic for guidance on contingent fees, commissions, and referral fees. [No prior reference: not substantive change]

1.240 Financial Interests

1.240.010 Overview of Financial Interests

- .01 If a covered member had or was committed to acquire any direct financial interest in an attest client during the period of the professional engagement, the self-interest threat to the covered member’s compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired. [Prior reference: paragraph .02(A)(1) of ET section 101 and paragraph .17 of ET section 101]

- .02** If a covered member had or was committed to acquire any material indirect financial interest in an attest client during the period of the professional engagement, the self-interest threat to the covered member's compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired. [Prior reference: paragraph .02(A)(1) of ET section 101 and paragraph .17 of ET section 101]
- .03** If a partner or professional employee of the firm, his or her immediate family, or any group of such persons acting together owned more than 5 percent of an attest client's outstanding equity securities or other ownership interests during the period of the professional engagement, the self-interest threat to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired. [Prior reference: paragraph .02(B) of ET section 101]
- .04** Refer to the “Joint Closely Held Investment” interpretation for additional guidance.

1.240.020 Unsolicited Financial Interests

- .01** When a covered member becomes aware that he or she will receive, or has received, an unsolicited financial interest in an attest client during the period of the professional engagement, such as through a gift or an inheritance, the self-interest threat would be at an acceptable level and independence would not be impaired if both of the following safeguards are met:
- a. The covered member disposes of the financial interest as soon as practicable but no later than 30 days after the covered member has knowledge of and obtains the right to dispose of the financial interest.
 - b. During the period in which the covered member does not have the right to dispose of the financial interest, the covered member does not participate on the attest engagement team, and the direct financial interest or indirect financial interest is not material to the covered member. [Prior reference: paragraph .17 of ET section 101]

1.240.030 Mutual Funds

- .01** A covered member who owns shares in a mutual fund has a direct financial interest in the mutual fund and indirect financial interests in the mutual fund's underlying investments.
- .02** If a covered member owns 5 percent or less of the outstanding shares of a diversified mutual fund, the underlying investments would be considered immaterial indirect financial interests. Accordingly, the self-interest threat would be at an acceptable level, and independence would not be impaired. To determine if the mutual fund is diversified, the covered member should consider referring to (a) the mutual fund's prospectus for disclosure regarding fund management's determination of whether the fund is not diversified and (b) Section 5(b)(1) of the Investment Company Act of 1940.

- .03 If a covered member owns more than 5 percent of a diversified mutual fund's outstanding shares, or if a covered member owns a financial interest in a nondiversified mutual fund, the covered member should evaluate the mutual fund's underlying investments to determine whether the covered member holds a material indirect financial interest in any of the underlying investments.
- .04 The following example illustrates how to determine if the underlying investments are material to a covered member's net worth. If
- a nondiversified mutual fund owns shares in client company A;
 - the mutual fund's net assets are \$10 million;
 - the covered member owns 1 percent of the outstanding shares of the mutual fund, having a value of \$100,000; and
 - the mutual fund has 10 percent of its assets invested in company A,
- then the covered member's indirect financial interest in company A is \$10,000 (\$100,000 x 10%). The covered member would then compare the \$10,000 indirect financial interest with his or her net worth, including the net worth of his or her immediate family, to determine if the indirect financial interest in company A is material. [Prior reference: paragraph .17 of ET section 101]

1.240.040 Retirement, Savings, Compensation, or Similar Plans

- .01 Depending upon the facts and circumstances, financial interests held in a retirement, savings, compensation, or similar plan are either direct financial interests or indirect financial interests.
- .02 Investments held by a retirement, savings, compensation, or similar plan sponsored by a firm are direct financial interests of the firm.
- .03 If a covered member or his or her immediate family self-directs the investments in a retirement, savings, compensation, or similar plan or has the ability to supervise or participate in the plan's investment decisions, the financial interests held by the plan are direct financial interests of the covered member. For example
- a. when a covered member or his or her immediate family member is a trustee of a retirement, savings, compensation, or similar plan or otherwise has the authority to supervise or participate in the plan's investment decisions (including through the selection of investment managers or pooled investment vehicles), the underlying investments are direct financial interests of the covered member.
 - b. for self-directed or participant-directed plans (that is, the covered member or his or her immediate family member selects his or her underlying plan investments or selects from investment alternatives offered by the plan), the underlying investments are direct financial interests of the covered member.
- .04 When the covered member or his or her immediate family do not participate in a self-directed or participant-directed plan and have no authority to supervise or participate in

the plan's investment decisions, the underlying investments would be considered to be indirect financial interests of the covered member.

- .05 Financial interests held by a defined benefit plan are not considered financial interests of the covered member unless the covered member or his or her immediate family member is a trustee of the plan or otherwise has the ability to supervise or participate in the plan's investment decisions.
- .06 Allocated shares held in an employee stock ownership plan (ESOP) are considered beneficially owned by the covered member. Until the covered member or his or her immediate family member has the right to dispose of the ESOP's financial interests, the beneficial ownership is considered an indirect financial interest. Once the participant has the right to dispose of the financial interests, the financial interests are direct financial interests of the covered member.
- .07 Rights to acquire equity interests, restricted stock awards, or other share-based compensation arrangements are considered the direct financial interests of the covered member, regardless of whether such financial interests are vested or exercisable.
- .08 See the "Plan Is an Attest Client or Is Sponsored by an Attest Client" interpretation and the "Former Employment or Association With an Attest Client" interpretation of the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.250.010 and 1.275.100, respectively) and the interpretations of the "Family Relationships With Attest Clients" subtopic under the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.270). [Prior reference: paragraph .17 of ET section 101]

1.240.050 Partnerships

- .01 When used in this interpretation, control includes situations in which the covered member, individually or acting together with his or her firm or other partners or professional employees of his or her firm, has the ability to exercise such control.
- .02 The ownership of a general or limited partnership interest is considered a direct financial interest in the partnership.
- .03 *General partner.* If the covered member is a general partner, the financial interests held by a partnership are a covered member's direct financial interests because the covered member is in a position to control the partnership or supervise or participate in the partnership's investment decisions.
- .04 *Limited partner.* If the covered member is a limited partner, the financial interests held by a limited partnership are a covered member's indirect financial interests, as long as the covered member does not control the partnership or supervise or participate in the partnership's investment decisions. However, if the covered member has the ability to replace the general partner or has the authority to supervise or participate in the partnership's investment decisions, the partnership's financial interests would be the covered member's direct financial interests.

- .05 Refer to the “[Client Affiliates](#)” [interpretation](#) of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.224.010) and the “[Joint Closely Held Investments](#)” [interpretation](#) for additional guidance. [Prior reference: paragraph .17 of ET section 101]

1.240.060 Limited Liability Companies

- .01 When used in this interpretation, control includes situations in which the [covered member](#), individually or acting together with his or her [firm](#) or other [partners](#) or professional employees of his or her [firm](#), has the ability to exercise such control.
- .02 Ownership of an interest in a limited liability company (LLC) is a [direct financial interest](#) in the LLC.
- .03 In an LLC, managing members control the LLC and have the authority to supervise or participate in the LLC’s investment decisions. Accordingly, if a [covered member](#) is a manager of the LLC, the [financial interests](#) of the LLC are the [covered member’s direct financial interests](#). When a [covered member](#) is not a managing member of the LLC, the [covered member](#) should review the LLC’s operating agreement to determine whether he or she can control the LLC or has the authority to supervise or participate in the LLC’s investment decisions. In situations in which the [covered member](#) does not control the LLC and does not have the authority to supervise or participate in the LLC’s investment decisions, the [financial interests](#) held by the LLC are the [covered member’s indirect financial interests](#). [Prior reference: paragraph .17 of ET section 101]

1.240.070 Section 529 Plans

- .01 Section 529 plans are sponsored by states or higher education institutions and may be prepaid tuition plans or savings plans. An account owner establishes both types of plans for the benefit of a single beneficiary. The account owner may change the beneficiary at any time to another individual who is a relative of the previous beneficiary.
- .02 *Prepaid tuition plan.* A [covered member](#) who is the account owner of a Section 529 prepaid tuition plan is considered to have a [direct financial interest](#) in the plan. The account owner does not have any [financial interests](#) in the plan’s underlying investments because the prepayment represents an obligation of the state or educational institution to provide the education regardless of its investment performance or the cost of the education at the future date.
- .03 *Savings plan.* A [covered member](#) who is the account owner of a Section 529 savings plan is considered to have a [direct financial interest](#) in both the plan and the plan’s underlying investments because the account owner selects which sponsor’s Section 529 savings plan to invest in, and prior to making the investment decision, the [covered member](#) has access to information about the plan’s investment options or funds. However, if the Section 529 savings plan does not hold [financial interests](#) in an [attest client](#) at the time of the investment but the plan subsequently invests in that [attest client](#), the financial interest threat would be at an acceptable level and [independence](#) would not be impaired if all of the following [safeguards](#) are met:

- a. The covered member transfers the account to another sponsor's Section 529 savings plan.
- b. The covered member transfers the account to another account owner who is not a covered member.

When the transfer of the account will result in a penalty or tax that is significant to the account, the covered member may continue to own the account until the account can be transferred without significant penalty or tax, provided that the covered member does not participate on the attest engagement team and is not an individual in a position to influence the attest engagement.

- .04 *Beneficiary of Section 529 account.* A covered member who is a beneficiary of a Section 529 account is not considered to have a financial interest in the plan or the plan's underlying investments because the covered member does not own the account or possess any of the underlying benefits of ownership. The beneficiary's only interest is to receive distributions from the account for qualified higher education expenses if and when they are authorized by the account owner.
- .05 *Sponsor of Section 529 plan is a government or governmental entity.* Before becoming engaged to perform an attest engagement for a government or governmental entity that sponsors a Section 529 plan, covered members who are account owners of a Section 529 plan should consider the guidance in the "Entities Included in State and Local Government Financial Statements" interpretation. [Prior reference: paragraph .17 of ET section 101]

1.245 Trusts and Estates

1.245.010 Trustee or Executor

- .01 The designation of a covered member to serve as a trustee of a trust or an executor or administrator of an estate that held, or was committed to acquire, any direct financial interest or any material indirect financial interest in an attest client during the period of the professional engagement does not in itself create a self-interest threat to the covered member's compliance with the "Independence Rule." [Prior reference: paragraphs .21–.22 of ET section 191]
- .02 However, when the covered member serves as the trustee or executor during the period of the professional engagement, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards if
 - a. the covered member (individually or with others) has the authority to make investment decisions for the trust or estate,
 - b. the trust or estate owned or was committed to acquire more than 10 percent of the attest client's outstanding equity securities or other ownership interests, or
 - c. the value of the trust's or estate's holdings in the attest client exceeds 10 percent of the total assets of the trust or estate.

Accordingly, in these situations, independence would be impaired. [Prior reference: paragraph .02A-2 of ET section 101]

1.245.020 Trust Investments

- .01 When used in this interpretation, control includes situations in which the covered member, individually or acting together with his or her firm or other partners or professional employees of his or her firm, has the ability to exercise such control.
- .02 When a covered member is a grantor of a trust, including a blind trust, the trust and its underlying investments are considered to be the covered member's direct financial interest if the covered member has any of the following rights or responsibilities:
- a. The ability to amend or revoke the trust.
 - b. The authority to control the trust.
 - c. The ability to supervise or participate in the trust's investment decisions.
 - d. The underlying trust investments will ultimately revert to the covered member as the grantor of the trust.

However, the trust and the trust's underlying investments are not considered to be financial interests of a covered member if the covered member is the grantor of the trust and the covered member does not have any of the rights or responsibilities in items *a–d*.

- .03 When a covered member is only a beneficiary of a trust and does not have any of the rights or responsibilities noted in paragraph .02a–d, the trust is considered to be the direct financial interest of the covered member, and the trust's underlying investments are considered to be indirect financial interests of the covered member. [Prior reference: paragraph .17 of ET section 101]

A nonauthoritative answer to an FAQ regarding the use of blind trusts is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.250 Participation in Employee Benefit Plans

1.250.010 Plan Is an Attest Client or Is Sponsored by an Attest Client

- .01 When a covered member participates in an employee benefit plan during the period of the professional engagement or during the period covered by the financial statements that is an attest client or is sponsored by an attest client, the self-interest threat to compliance with the “Independence Rule” would not be at an acceptable level, and independence with respect to the employee benefit plan and the sponsor would be impaired except in the following specific situations:
- a. *Governmental organization.* When a covered member is an employee of a governmental organization that sponsors, cosponsors, or participates with other governmental organizations in a public employee retirement plan (the plan) and the covered member is required by law or regulation to audit the plan, threats to

independence would be at an acceptable level and independence would not be impaired, provided that all of the following safeguards are met:

- i. The covered member is required to participate in the plan as a condition of employment.
- ii. The plan is offered to all employees in comparable employment positions.
- iii. The covered member is not associated with the plan in any capacity prohibited by the “Simultaneous Employment or Association With an Attest Client” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.275.005).
- iv. The covered member has no influence or control over the investment strategy, benefits, or other management activities associated with the plan. [Prior reference: paragraphs .214–.215 of ET section 191]

- b. *Former employment or association with the attest client.* The requirements of paragraph .04 of the “Former Employment or Association With an Attest Client” interpretation must be met.
- .02** When an immediate family member participates in an employee benefit plan that is an attest client or is sponsored by an attest client as a result of his or her employment, the requirements of the “Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client (Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.270.030) must be met. [Prior reference: paragraph .17 of ET section 101]

1.250.020 Former Partners and Professional Employees Participation in a Firm-Sponsored Plan

- .01** When partners and professional employees leave a firm and are subsequently employed by, or associated with, an attest client of the firm in a key position, the requirements of paragraph .02a–c of the “Subsequent Employment or Association With an Attest Client” interpretation must be met to reduce the familiarity, self-interest, or management participation threats to an acceptable level. [Prior reference: paragraph .04 of ET section 101]

1.255 Depository, Brokerage, and Other Accounts

1.255.010 Depository Accounts

- .01** If a covered member maintains checking, savings, certificates of deposit, money market, or other depository accounts (depository accounts) at a bank or similar depository institution that is an attest client during the period of the professional engagement, a self-interest threat to the covered member’s compliance with the “Independence Rule” may exist.

- .02 When the covered member is a firm, the threat would be at an acceptable level, and independence would not be impaired if the firm concludes that the likelihood of the bank or similar depository institution experiencing financial difficulties is remote.
- .03 When the covered member is an individual, the threat would be at an acceptable level, and independence would not be impaired provided that
- a. the balance in the depository account(s) is fully insured by the appropriate state or federal government deposit insurance agencies or by any other insurer, or
 - b. any uninsured amounts, in the aggregate, are reduced to an immaterial amount no later than 30 days from the date that the uninsured amount becomes material to the covered member's net worth.
- .04 Refer to the "Member of a Credit Union" interpretation and "Loans and Leases With Lending Institutions" interpretation of the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.280.040 and 1.260.020, respectively) for additional guidance. [Prior reference: paragraphs .140–.141 of ET section 191]

1.255.020 Brokerage and Other Accounts

- .01 If an attest client in the financial services industry, such as an insurance company, an investment adviser, a broker-dealer, a bank, or similar depository institution, has custody of a covered member's assets, including retirement plan assets, during the period of the professional engagement, a self-interest threat to the covered member's compliance with the "Independence Rule" may exist. For specific guidance applicable to depository accounts held at a bank or similar depository institution, see the "Depository Accounts" interpretation of the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.255.010).
- .02 Threats would not be at an acceptable level and independence would be impaired unless the following safeguards are met
- a. the attest client's services were rendered under the attest client's normal terms, procedures, and requirements, and
 - b. any covered member's assets that are not insured by appropriate state or federal government deposit insurance agencies or any other insurer or that are otherwise subject to the risk of loss are immaterial to the covered member's net worth.
- .03 In determining the existence of a risk of loss, the covered member should consider losses arising from the attest client's insolvency, bankruptcy, or acts of fraud or other illegal acts but should not consider potential losses arising from a market decline in the value of the assets.
- .04 When considering the materiality of assets subject to the risk of loss, the covered member should consider the following:
- a. Protection that state or federal regulators provide for the assets, such as state insurance funds

- b. Private insurance or other forms of protection that the financial services company obtains to protect its customers' assets, such as coverage by the Securities Investor Protection Corporation
- c. Protection from creditors, such as assets held in a pooled separate account or separate escrow accounts [Prior reference: paragraphs .081–.082 of ET section 191]

1.257 Insurance Products

1.257.010 Policies With No Investment Option

- .01 An insurance policy obtained from a stock or mutual insurance company that does not offer the policy holder an investment option is not considered a financial interest.
- .02 If, during the period of the professional engagement, a covered member owns an insurance policy issued by an attest client with no investment option, a self-interest threat to the covered member's compliance with the "Independence Rule" may exist.
- .03 Threats would not be at an acceptable level, and could not be reduced to an acceptable level through the application of safeguards, and independence would be impaired if the policy was not purchased under the insurance company's normal terms, procedures, and requirements. [Prior reference: paragraph .17 of ET section 101]

1.257.020 Policies With Investment Options

- .01 If during the period of the professional engagement the covered member purchases an insurance policy with investment options, but the policy is not purchased under the insurance company's normal terms, procedures, and requirements, threats would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.
- .02 When an insurance policy, purchased under the insurance company's normal terms, procedures, and requirements, offers an investment option that allows the covered member who holds the policy to invest part of the policy's cash value in various investment products, the policy's underlying investments are considered to be financial interests of the covered member. Accordingly, the self-interest threat to the covered member's compliance with the "Independence Rule" may exist.
- .03 If the covered member has the ability to select the policy's underlying investments or the authority to supervise or participate in the investment decisions and the covered member invests in an attest client during the period of the professional engagement, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired because the investment would be considered a direct financial interest. For example, if the covered member invested the policy's cash value into a mutual fund that is an attest client, the investment in the mutual fund would be

considered a direct financial interest and independence would be impaired. However, the mutual fund's underlying investments are considered to be indirect financial interests.

- .04 Refer to the “Financial Interests” subtopic (AICPA, *Professional Standards*, ET sec. 1.240) and the “Joint Closely Held Investments” interpretation of the “Independence Rule” for additional guidance. [Prior reference: paragraph .17 of ET section 101]

1.257.030 Insurer Undergoes Demutualization

- .01 If a mutual insurance company begins demutualization, a covered member who holds an insurance policy from the insurer should apply the guidance in the “Unsolicited Financial Interests” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.240.020). [Prior reference: paragraph .17 of ET section 101]

1.260 Loans, Leases, and Guarantees

1.260.010 Loans

- .01 If a covered member has a loan to or from an attest client, any officer or director of the attest client, or any individual owning 10 percent or more of the attest client's outstanding equity securities or other ownership interests, a self-interest threat to the covered member's compliance with the “Independence Rule” exists. Threats would not be at an acceptable level and independence would be impaired if the loan exists during the period of the professional engagement, except as provided for in the “Loans and Leases With Lending Institutions” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.260.020). [Prior reference: paragraph .02(A)(4) of ET section 101]

1.260.020 Loans and Leases With Lending Institutions

- .01 The “Loans” interpretation of the “Independence Rule” provides that a self-interest threat would not be at an acceptable level and independence would be impaired if a covered member had a loan to or from an attest client, any officer or director of the attest client, or any individual owning 10 percent or more of the attest client's outstanding equity securities or other ownership interests, except as provided for in this interpretation.
- .02 *Home mortgages, secured loans and immaterial unsecured loans.* Threats, however, would be at an acceptable level and independence would not be impaired if a covered member or his or her immediate family has an unsecured loan that is not material to the covered member's net worth (that is, immaterial unsecured loan); a home mortgage; or a secured loan from a lending institution attest client, provided that all the following safeguards are met:
- The home mortgage, secured loan, or immaterial unsecured loan was obtained under the lending institution's normal lending procedures, terms, and requirements. In determining when the home mortgage, secured loan, or immaterial unsecured loan was obtained, the date a commitment or line of credit

is granted must be used, rather than the date a transaction closes or funds are obtained.

- b. The home mortgage, secured loan, or immaterial unsecured loan was obtained
 - i. from the lending institution prior to its becoming an attest client;
 - ii. from a lending institution for which independence was not required and was later sold to an attest client;
 - iii. after May 31, 2002, from a lending institution attest client by a borrower prior to his or her becoming a covered member with respect to that attest client; or
 - iv. prior to May 31, 2002 and the requirements of the loan transition provision in www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/transistion%20periods.pdf are met.
- c. After becoming a covered member, any home mortgage, secured loan, or immaterial unsecured loan must be kept current regarding all terms at all times, and the terms may not change in any manner not provided for in the original agreement. Examples of changed terms are a new or extended maturity date, a new interest rate or formula, revised collateral, and revised or waived covenants.
- d. The estimated fair value of the collateral for a home mortgage or other secured loan must equal or exceed the outstanding balance during the term of the home mortgage or other secured loan. If the estimated fair value of the collateral is less than the outstanding balance of the home mortgage or other secured loan, the portion that exceeds the estimated fair value of the collateral may not be material to the covered member's net worth.

.03 *Loans to partnerships and other similar entities.* For purposes of applying the loan provision in paragraph .02 when the covered member is a partner in a partnership, a loan to a limited partnership (or similar type of entity) or general partnership would be ascribed to each covered member who is a partner in the partnership on the basis of his or her legal liability as a limited or general partner if

- a. the covered member's interest in the limited partnership, either individually or combined with the interest of one or more covered members, exceeds 50 percent of the total limited partnership interest, or
- b. the covered member, either individually or together with one or more covered members, can control the general partnership.

Even if no amount of a partnership loan is ascribed to the covered member(s) previously identified, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards, and independence would be impaired if the partnership renegotiates a loan or obtains a new loan that is not a permitted loan, as described in paragraph .04 of this interpretation.

.04 *Other loans and leases.* Threats would be at an acceptable level and independence would not be impaired if a covered member obtains one of the following types of loans or leases under the lending institution's normal lending procedures, terms, and requirements,

provided the covered member complies with the terms of the loan or lease agreement at all times (for example, keeping payments current):

- a. Automobile loans and leases collateralized by the automobile
 - b. Loans fully collateralized by the cash surrender value of an insurance policy
 - c. Loans fully collateralized by cash deposits at the same lending institution (for example, passbook loans)
 - d. Aggregate outstanding balances from credit cards and overdraft reserve accounts that have a balance of \$10,000 or less after payment of the most recent monthly statement made by the due date or within any available grace period
- .05** Members should consider that certain state and federal agencies may proscribe more restrictive requirements over lending institution that are subject to their oversight and that, in turn, impose these more restrictive requirements upon members that perform attest engagements for these lending institutions. For example, the Securities and Exchange Commission (SEC) proscribes more restrictive requirements over lending institutions and broker-dealers within their purview. [Prior reference: paragraph .07 of ET section 101 and paragraphs .150–.151 of ET section 191]
- .06** Covered members may be subject to additional restrictions, as described in the “Depository Accounts” interpretation and the “Member of a Credit Union” interpretation of the “Independence Rule.”

1.260.030 Servicing of a Loan

- .01** The self-interest threat to compliance with the “Independence Rule” would be at an acceptable level and independence would not be impaired if a lending institution attest client services a loan originally extended to a covered member by another lending institution. [Prior reference: paragraphs .134–.135 of ET section 191]

1.260.040 Leases

- .01** If a covered member entered into a leasing agreement with an attest client, other than those covered by paragraph .04 of the “Loans and Leases With Lending Institutions” interpretation of the “Independence Rule,” during the period of the professional engagement, the self-interest threat would be at an acceptable level and independence would not be impaired if all the following safeguards are met:
- a. The lease meets the criteria of an operating lease (as described in GAAP).
 - b. The terms and conditions set forth in the lease agreement are comparable with other leases of a similar nature.
 - c. All amounts are paid in accordance with the lease terms or provisions.
- .02** Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and

independence would be impaired, if a covered member has a lease that meets the criteria of a capital lease (as described in GAAP), unless the lease is in compliance with the “Loans and Leases With Lending Institutions” interpretation of the “Independence Rule,” because the lease would be considered to be a loan with the attest client. [Prior reference: paragraphs .182–.183 of ET section 191]

1.260.050 Association With an Entity That Has a Loan To or From an Attest Client

- .01** If a covered member is an officer, a director, or a shareholder of an entity and the entity has a loan to or from an attest client during the period of the professional engagement, a self-interest threat to the covered member’s compliance with the “Independence Rule” exists. Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and independence would be impaired if the covered member has control over the entity, unless the lending relationship is permitted under the “Loans and Leases With Lending Institutions” interpretation of the “Independence Rule.”
- .02** If any partner or professional employee of the firm is an officer, a director, or a shareholder of an entity and the entity has a loan to or from an attest client, threats to the partner’s or professional employee’s objectivity may exist. If the partner or professional employee is able to exercise significant influence over the entity but is not a covered member who can control the entity (see paragraph .01), the partner or professional employee should consider the “Conflicts of Interest” interpretation of the “Integrity and Objectivity Rule.”
- .03** When making the decision about whether to perform a professional service and in making disclosure to the appropriate parties, the member should consider the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.001). [Prior reference: paragraphs .220–.221 of ET section 191]

1.265 Business Relationships

1.265.010 Cooperative Arrangements With Attest Clients

- .01** If a member or his or her firm has a cooperative arrangement with an attest client, self-interest, familiarity, and undue influence threats to the member or his or her firm’s compliance with the “Independence Rule” may exist. Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards if, during the period of the professional engagement, the cooperative arrangement is material to the firm or attest client. Accordingly, independence would be impaired.
- .02** A cooperative arrangement exists when a member or his or her firm and an attest client jointly participate in a business activity. However, a cooperative arrangement would not exist when all of the following safeguards are met:

- a. The participation of the firm and attest client are governed by separate agreements, arrangements, or understandings that do not create rights or obligations between the firm and attest client.
 - b. Neither the firm nor the attest client assumes responsibility for the other's activities or results.
 - c. Neither party has the authority to act as the other's representative or agent.
- .03** Examples of cooperative arrangements include the following:
- a. Prime and subcontractor arrangements to provide services or products to a third party
 - b. Joint ventures to develop or market products or services
 - c. Arrangements to combine one or more of the firm's services or products with one or more of the attest client's services or products and market the package with references to both parties
 - d. Arrangements under which the firm acts as a distributor or marketer of the attest client's products or services or the attest client acts as the distributor or marketer of the firm's products or services of the firm
- .04** Refer to the "Contingent Fees Rule" and the "Commissions and Referral Fees Rule" (AICPA, *Professional Standards*, ET sec. 1.510.001 and 1.520.001, respectively) for additional guidance. [Prior reference: paragraph .14 of ET section 101]

1.265.020 Joint Closely Held Investments

- .01** If a covered member has a joint closely held investment, a self-interest threat to the covered member's compliance with the "Independence Rule" may exist. Threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards if the covered member holds a material joint closely held investment during the period of the professional engagement. Accordingly, independence would be impaired. [Prior reference: paragraph .02(A)(3) of ET section 101]
- .02** A joint closely held investment includes a joint interest that a covered member and an attest client (or one of the client's officers or directors, or any owner who has the ability to exercise significant influence over the attest client) have in a vacation home, provided the covered member and attest client (or one of the client's officers or directors or any owner who has the ability to exercise significant influence over the attest client) control the investment and the vacation home is material to the covered member. Such is the case even if the vacation home is solely intended for the personal use of the owners. [Prior reference: paragraphs .184–.185 of ET section 191]

1.270 Family Relationships With Attest Clients

1.270.010 Immediate Family Members

- .01** The *immediate family* of a *covered member* must comply with the “[Independence Rule](#)” and its *interpretations*, except as permitted in the following interpretations:
- a. “[Immediate Family Member Is Employed by the Attest Client](#)” (AICPA, *Professional Standards*, ET sec. 1.270.020)
 - b. “[Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client \(Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans\)](#)” (AICPA, *Professional Standards*, ET sec. 1.270.030)
 - c. “[Immediate Family Member Participation in an Employee Benefit Plan With Financial Interests in an Attest Client](#)” (AICPA, *Professional Standards*, ET sec. 1.270.040)
 - d. “[Immediate Family Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients](#)” (AICPA, *Professional Standards*, ET sec. 1.270.050)
 - e. “[Immediate Family Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client](#)” (AICPA, *Professional Standards*, ET sec. 1.270.060)
 - f. “[Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation](#)” (AICPA, *Professional Standards*, ET sec. 1.270.070)
 - g. “[Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan](#)” (AICPA, *Professional Standards*, ET sec. 1.270.080)
- .02** Notwithstanding any exceptions provided for in paragraph .01, the ownership interests of a *covered member’s immediate family* may not exceed those specified in paragraph .03 of the “[Overview of Financial Interests](#)” interpretation of the “Independence Rule.”
- .03** When materiality of a *financial interest* is identified as a factor affecting *independence* in the *interpretations* of the “[Independence Rule](#),” interests of the *immediate family* member and the *covered member* should be combined to determine materiality to the *covered member*. [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative document, *Independence Rules Modernization Project* (white paper), provides some discussion on changes made to the independence provisions that are applicable to close relatives. The white paper is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/IndependenceModernizationWhitePaper.doc.

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc.

1.270.020 Immediate Family Member Is Employed by the Attest Client

- .01 When an individual in a *covered member's immediate family* is employed by an *attest client*, management participation, familiarity, and self-interest threats to the *covered member's* compliance with the "Independence Rule" may exist.
- .02 If a *covered member's immediate family* is employed by an *attest client* but is not in a *key position*, threats would be at an acceptable level and *independence* would not be impaired.
- .03 If a *covered member's immediate family* is in a *key position* with an *attest client* during the period covered by the *financial statements* or during the *period of the professional engagement*, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, *independence* would be impaired.

Grandfathered Employment Relationships

- .04 Refer to www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/tran-sition%20periods.pdf for grandfathered employment relationships for immediate family members. [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative document, *Independence Rules Modernization Project* (white paper), provides some discussion on changes made to the independence provisions that are applicable to close relatives. The white paper is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/IndependenceModernizationWhitePaper.doc.

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc.

1.270.030 Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client (Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans)

- .01 If during the period covered by the *financial statements* or during the *period of the professional engagement*, an *immediate family* member of a *covered member* participates in an employee benefit plan (plan) that is an *attest client* or is sponsored by an *attest client* (other than an *attest client's share-based compensation arrangement* and nonqualified deferred compensation plan), threats would be at an acceptable level and *independence* would not be impaired if all of the following *safeguards* were met:
 - a. The *immediate family* member does not serve in a *key position* for the *attest client*, as discussed in the "Immediate Family Member Is Employed by the Attest Client" interpretation of the "Independence Rule."
 - b. The plan is offered to all employees in comparable employment positions.

- c. The *immediate family* member does not serve in a position of governance (for example, board of trustees) for the plan.
 - d. The *immediate family* member does not have the ability to supervise or participate in the plan’s investment decisions or in the selection of the investment options made available to plan participants. [Prior reference: paragraph .02 of ET section 101]
- .02** *Share-based compensation arrangements* and nonqualified deferred compensation plans are discussed in the following interpretations:
- a. [“Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients” interpretation](#), of the “Independence Rule”
 - b. [“Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client” interpretation](#), of the “Independence Rule”
 - c. [“Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation” interpretation](#), of the “Independence Rule”
 - d. [“Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan” interpretation](#), of the “Independence Rule”

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/Downloadable Documents/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc).

1.270.040 Immediate Family Member Participation in an Employee Benefit Plan With Financial Interests in an Attest Client

- .01** If during the *period of the professional engagement*, an *immediate family* member of a *covered member* is employed at a nonclient or employed in a non-*key position* at an *attest client*, the *immediate family* member may hold a *direct financial interest* or material *indirect financial interest* in an *attest client* through participation in an employee benefit plan (other than *share-based compensation arrangements* and nonqualified deferred compensation), if threats are at an acceptable level. Threats would be at an acceptable level, and *independence* would not be impaired, if all of the following *safeguards* were met:
- a. The *covered member* neither participates on the *attest engagement team* nor is an *individual in a position to influence the attest engagement*.
 - b. Such investment is an unavoidable consequence of such participation. Unavoidable consequence means that the *immediate family* member has no other investment options available for selection, including money market or invested cash options, except for selecting an investment option in an *attest client*.
 - c. In the event that a plan provides an option that permits the *immediate family* member to invest in a nonattest *client* or a nonclient investment option that becomes available, the *immediate family* member is required to select the

investment option in the nonclient or nonattest *client* and dispose of *financial interests* in the *attest client* as soon as practicable but no later than 30 days after such option becomes available. When legal or other similar restrictions exist on an *immediate family* member's right to dispose of a *financial interest* at a particular time, the *immediate family* member need not dispose of the interest until the restrictions have lapsed. For example, an *immediate family* member is not required to dispose of a *financial interest* in an *attest client* if doing so would violate an employer's policies on insider trading. On the other hand, waiting for more advantageous market conditions to dispose of the interest would not fall within this exception. [Prior reference: paragraph .02 of ET section 101]

.02 *Share-based compensation arrangements* and nonqualified deferred compensation plans are discussed in the following interpretations:

- a. [“Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients” interpretation](#) of the “Independence Rule”
- b. [“Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client” interpretation](#) of the “Independence Rule”
- c. [“Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation” interpretation](#) of the “Independence Rule”
- d. [“Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan” interpretation](#) of the “Independence Rule”

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/Downloadable Documents/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc).

1.270.050 Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients

.01 If during the *period of the professional engagement*, an *immediate family* member of a *covered member* participates in a *share-based compensation arrangement* of an *attest client*, such as an ESOP, that results in the *immediate family* member holding a *financial interest* in an *attest client* that is *beneficially owned*, threats are at an acceptable level and *independence* would not be impaired if all of the following *safeguards* were met:

- a. The *immediate family* member does not serve in a *key position* for the *attest client*, as discussed in the [“Immediate Family Member Is Employed by the Attest Client” interpretation](#) of the “Independence Rule.”
- b. The *covered member* neither participates on the *attest engagement team* nor is an *individual in a position to influence the attest engagement*.
- c. The *immediate family* member does not serve as a trustee for the *share-based compensation arrangement* and does not have the ability to supervise or

participate in the selection of the investment options, if any, made available to plan participants.

- d. When the financial interests that are beneficially owned are distributed or the immediate family member has the right to dispose of the financial interests, the immediate family member is required to
 - i. dispose of the financial interests as soon as practicable but no later than 30 days after he or she has the right to dispose of the financial interests or
 - ii. exercise his or her option to require the employer to repurchase the financial interests as soon as permitted by the terms of the share-based compensation arrangement. In addition, any repurchase obligation due to the immediate family member arising from exercise of the option that is outstanding for more than 30 days would need to be immaterial to the covered member during the payout period. When legal or other similar restrictions exist on an immediate family member's right to dispose of a financial interest at a particular time, the immediate family member need not dispose of the interest until the restrictions have lapsed. For example, an immediate family member does not have to dispose of a financial interest in an attest client if doing so would violate an employer's policies on insider trading. On the other hand, waiting for more advantageous market conditions to dispose of the interest would not qualify for this exception.
- e. Benefits payable from the share-based compensation arrangement to the immediate family member upon termination of employment, whether through retirement, death, disability, or voluntary or involuntary termination, are funded by investment options other than the employer's financial interests, and any unfunded benefits payable are immaterial to the covered member at all times during the payout period. [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc.

1.270.060 Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client

- .01** If during the period of the professional engagement an immediate family member of a covered member participates in a share-based compensation arrangement resulting in a right to acquire shares in an attest client, such as an ESOP or restricted stock rights plan, threats are at an acceptable level and independence would not be impaired if all of the following safeguards were met:
 - a. The immediate family member does not serve in a key position for the attest client, as discussed in the "Immediate Family Member Is Employed by the Attest Client" interpretation of the "Independence Rule."

- b. The covered member neither participates on the attest engagement team nor is an individual in a position to influence the attest engagement.
 - c. The immediate family member exercises or forfeits these rights once he or she is vested, and the closing market price of the underlying stock equals or exceeds the exercise price for 10 consecutive days (market period). The exercise or forfeiture should occur as soon as practicable but no later than 30 days after the end of the market period. In addition, if the immediate family member exercises his or her right to acquire shares in the attest client, he or she should dispose of the shares as soon as practicable but no later than 30 days after the exercise date, and
 - i. when legal or other similar restrictions exist on an immediate family member's right to dispose of a financial interest at a particular time, the immediate family member need not dispose of the interest until the restrictions have lapsed. For example, an immediate family member does not have to dispose of a financial interest in an attest client if doing so would violate an employer's policies on insider trading. On the other hand, waiting for more advantageous market conditions to dispose of the interest would not qualify for this exception.
 - ii. if the employer repurchases the shares, any employer repurchase obligation due to the immediate family member that is outstanding for more than 30 days would need to be immaterial to the covered member during the payout period.
- .02** Refer to paragraph .06 of the "Retirement, Savings, Compensation, or Similar Plans" interpretation of the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.240.040) for additional guidance. [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/Downloadable Documents/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc).

1.270.070 Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation

- .01** If during the period of the professional engagement an immediate family member of a covered member participates in a share-based compensation arrangement based on the appreciation of an attest client's underlying shares, such as a stock appreciation plan or phantom stock plan, threats are at an acceptable level and independence would not be impaired if all of the following safeguards were met:
- a. The immediate family member does not serve in a key position for the attest client, as discussed in the "Immediate Family Member Is Employed by the Attest Client" interpretation of the "Independence Rule."
 - b. The share-based compensation arrangement does not provide for the issuance of rights to acquire the employer's financial interests.

- c. The *covered member* neither participates on the *attest engagement team* nor is an *individual in a position to influence the attest engagement*.
- d. The *immediate family* member exercises or forfeits his or her vested rights if the underlying price of the employer's shares equals or exceeds the exercise price for 10 consecutive days (market period). Exercise or forfeiture should occur as soon as practicable but no later than 30 days after the end of the market period.
- e. Any resulting compensation payable to the *immediate family* member that is outstanding for more than 30 days is immaterial to the *covered member* during the payout period. [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc.

1.270.080 Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan

- .01** If during the *period of the professional engagement* an *immediate family* member of a *covered member* participates in a nonqualified deferred compensation plan of an *attest client* as a result of his or her employment, threats are at an acceptable level and *independence* would not be impaired if all of the following *safeguards* were met:
- a. The *immediate family* member does not serve in a *key position* for the *attest client*, as discussed in the "[Immediate Family Member Is Employed by the Attest Client](#)" interpretation of the "Independence Rule."
 - b. The *covered member* neither participates on the *attest engagement team* nor is an *individual in a position to influence the attest engagement*.
 - c. The amount of the deferred compensation payable to the *immediate family* member is funded through life insurance, an annuity, a trust, or similar vehicle, and any unfunded portion is immaterial to the *covered member*.
 - d. Any funding of the deferred compensation does not include *financial interests* in the *attest client*. [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsImmediateFamilyMember6-1-10Final.doc.

1.270.100 Close Relatives

- .01** When a *close relative* of a *covered member* is employed by an *attest client* or has *financial interests* in an *attest client*, management participation, familiarity, and self-interest threats to the *covered member's* compliance with the "[Independence Rule](#)" may exist.

- .02** Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and independence would be impaired, if an individual participating on the attest engagement team has a close relative who has
- a. a key position with the attest client during the period covered by the financial statements or during the period of the professional engagement or
 - b. a financial interest in the attest client during the period of the professional engagement that
 - i. the individual knows or has reason to believe was material to the close relative or
 - ii. enabled the close relative to exercise significant influence over the attest client.
- .03** Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and independence would be impaired, if an individual in a position to influence the attest engagement or any partner or partner equivalent in the office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement has a close relative who has
- a. a key position with the attest client during the period covered by the financial statements or during the period of the professional engagement or
 - b. a financial interest in the attest client during the period of the professional engagement that
 - i. the individual, partner, or partner equivalent knows or has reason to believe was material to the close relative and
 - ii. enabled the close relative to exercise significant influence over the attest client.
- [Revised March 2013, to incorporate the partner equivalents revisions effective for engagements covering periods beginning on or after December 15, 2014.]

Grandfathered Employment Relationships

- .04** Refer to
www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/transition%20periods.pdf for grandfathered employment relationships for close relatives.
 [Prior reference: paragraph .02 of ET section 101]

A nonauthoritative document, *Independence Rules Modernization Project* (white paper), provides some discussion about changes made to the independence provisions that are applicable to close relatives. The white paper is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/IndependenceModernizationWhitePaper.doc.

1.275 Employment or Association With an Attest Client

1.275.005 Simultaneous Employment or Association With an Attest Client

- .01** In this interpretation, simultaneous employment or association with an attest client is serving as a director, an officer, an employee, a promoter, an underwriter, a voting trustee, a trustee for any pension or profit-sharing trust of the attest client, or in any capacity equivalent to that of a member of management of an attest client during the period covered by the financial statements or the period of the professional engagement.
- .02** If a partner or professional employee of the member's firm is simultaneously employed or associated with an attest client, familiarity, management participation, advocacy, or self-review threats to the member's compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired. [Prior reference: paragraph .02C of ET section 101]
- .03** However, threats will be at an acceptable level and independence would not be impaired if a partner or professional employee of a firm serves as an adjunct faculty member of an educational institution that is an attest client of the firm, provided that the partner or professional employee meets all of the following safeguards:
- a. Does not hold a key position at the educational institution
 - b. Does not participate on the attest engagement team
 - c. Is not an individual in a position to influence the attest engagement
 - d. Is employed by the educational institution on a part-time and nontenure basis
 - e. Does not participate in any employee benefit plans sponsored by the educational institution, unless participation is required
 - f. Does not assume any management responsibilities or set policies for the educational institution

Upon termination of employment, the partner or professional employee should comply with the requirements of the “Former Employment or Association With an Attest Client” interpretation of the “Independence Rule.” [Prior reference: paragraph .21 of ET section 101].

A nonauthoritative answer to an FAQ regarding independent contractors retained by the firm who are simultaneously employed or associated with an attest client is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.275.010 Honorary Director or Trustee of a Not-for-Profit Organization

- .01 When a partner or professional employee of a member's firm serves as an honorary director or trustee of a not-for-profit organization that limits its activities to charitable, religious, or civic matters (or other matters of a similar nature), during the period covered by the financial statements or during the period of the professional engagement, familiarity, self-review, or management participation threats to the member's compliance with the "Independence Rule" may exist. However, threats would be at an acceptable level and independence would not be impaired if all of the following safeguards are met:
- a. The position is clearly honorary.
 - b. The individual cannot vote or otherwise participate in board or management responsibilities.
 - c. If the individual is named in letterheads and externally circulated materials, the member is identified as an honorary director or honorary trustee. [Prior reference: paragraph .06 of ET section 101]

1.275.015 Advisory Board

- .01 If a partner or professional employee of a member's firm serves on an advisory board of an attest client, threats to the member's compliance with the "Independence Rule" would be at an acceptable level and independence would not be impaired if all of the following safeguards are met:
- a. The responsibilities of the advisory board are in fact advisory in nature.
 - b. The advisory board has no authority to make nor does it appear to make management decisions on behalf of the attest client.
 - c. The advisory board and those having authority to make management decisions, including the board of directors or its equivalent, are distinct groups with minimal, if any, common membership. [Prior reference: paragraphs .144–.145 of ET section 191]

1.275.020 Governmental Advisory Committee

- .01 If a partner or professional employee of the firm serves on a citizens' advisory committee that is studying possible changes in the form of a county government that is an attest client of the member's firm, threats to the member's compliance with the "Independence Rule" would be at an acceptable level and independence would not be impaired with respect to the county.
- .02 If a partner or professional employee of the firm serves on an advisory committee appointed to study the financial status of the state in which the county is located, threats to the member's compliance with the "Independence Rule" would be at an acceptable level and independence would not be impaired with respect to the county. [Prior reference: paragraphs .039–.040 of ET section 191]

1.275.025 Campaign Treasurer

- .01 If a partner or professional employee of a member's firm serves as the campaign treasurer of a mayoral candidate, during the period covered by the financial statements or during the period of the professional engagement and the campaign organization is an attest client, the management participation threat to the member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.
- .02 If, instead, the candidate's political party or the municipality in which the candidate may become mayor is an attest client, the threat to the member's compliance with the "Independence Rule" would be at an acceptable level and independence would not be impaired.
- .03 Refer to the "Conflicts of Interest" interpretation of the "Integrity and Objectivity Rule" for additional guidance. [Prior reference: paragraphs .164–.165 of ET section 191]

1.275.030 Federated Fund-Raising Organization

- .01 When a partner or professional employee of a member's firm serves as a director or an officer of a federated fund-raising organization, such as United Way (the organization), during the period covered by the financial statements or during the period of the professional engagement, and a charity that receives funds from the organization is an attest client of the member's firm, management participation or self-review threats to the member's compliance with the "Independence Rule" may exist.
- .02 If the organization has managerial control over the charity, the threats to the member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.
- .03 Even if the organization does not have managerial control over the charity, a conflict of interest could arise that may create a threat to the member's compliance with the "Integrity and Objectivity Rule" (AICPA, *Professional Standards*, ET sec. 1.100.001). In such situations, the member should consult the "Conflicts of Interest" interpretation. [Prior reference: paragraphs .027–.028 of ET section 191]

1.275.035 Fund-Raising Organization

- .01 When a partner or professional employee of a member's firm serves on the board of directors of an organization during the period covered by the financial statements or during the period of the professional engagement and the organization receives funds from a fund-raising foundation that is an attest client, management participation or self-review threats to the member's compliance with the "Independence Rule" may exist.
- .02 If the fund-raising foundation functions solely to raise funds for that organization, the threat to compliance with the "Independence Rule" would not be at an acceptable level

and could not be reduced to an acceptable level by the application of [safeguards](#). Accordingly, [independence](#) would be impaired.

- .03 However, if the directorship is clearly honorary, in accordance with the “[Honorary Director or Trustee of a Not-for-Profit Organization](#)” [interpretation](#) of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.275.010), threats would be at an acceptable level and [independence](#) would not be impaired. [Prior reference: paragraphs .128–.129 of ET section 191]

1.275.100 Former Employment or Association With an Attest Client

- .01 This interpretation applies to [covered members](#) who were formerly employed by an entity or associated with an entity as an officer, a director, a promoter, an underwriter, a voting trustee, or a trustee for the entity’s pension or profit sharing trust and subsequently became employed by a [firm](#) that provides attest service to that entity.
- .02 When a [member](#) becomes a [partner](#) or professional employee of a [firm](#) that provides attest services to an entity where the [member](#) was formerly employed or otherwise associated, familiarity, self-interest, self-review, or management participation threats to the [member’s](#) compliance with the “[Independence Rule](#)” may exist.
- .03 If a [covered member](#) participates on the [client’s attest engagement](#) or is an [individual in a position to influence the attest engagement](#) covering any period that includes the [covered member’s](#) former employment or association with the [attest client](#), threats to the [member’s](#) compliance with the “[Independence Rule](#)” would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#). Accordingly, [independence](#) would be impaired.
- .04 If a [member](#) fails to disassociate from the [attest client](#) before becoming a [covered member](#), threats to the [member’s](#) compliance with the “[Independence Rule](#)” would not be at an acceptable level and [independence](#) would be impaired unless all of the following [safeguards](#) are met:
- a. The [covered member](#) ceases to participate in all employee health and welfare plans sponsored by the [attest client](#), unless the [attest client](#) is legally required to allow the [member](#) to participate in the plan (for example, the Consolidated Omnibus Budget Reconciliation Act [COBRA]) and the [member](#) pays 100 percent of the [member’s](#) portion of the cost of participation on a current basis.
 - b. The [covered member](#) ceases to participate in all other employee benefit plans by liquidating or transferring, at the earliest date permitted under the plan, 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.

However, when a [covered member’s](#) participation in one of these plans results from former employment or association with an [attest client](#), threats would be at an acceptable level and [independence](#) would not be impaired provided the liquidation or transfer of any vested benefits is either not permitted under the

terms of the plan or would result in a penalty significant to the benefits being imposed upon such liquidation or transfer and the covered member

- i. does not participate on the attest engagement team or
- ii. is not an individual in a position to influence the attest engagement.

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 maybe incurred, as a result of such liquidation or transfer.

- c. The covered member disposes of any direct or material indirect financial interests in the attest client.
- d. The covered member collects or repays any loans to or from the attest client, except for loans specifically permitted or grandfathered by the interpretations of the “Loans, Leases, and Guarantees” subtopic under the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.260).
- e. Covered members should evaluate whether other relationships with the attest client create threats that would require the member to apply safeguards to reduce any threats to an acceptable level. [Prior reference: paragraph .02 of ET section 101]

1.275.200 Considering Employment or Association With an Attest Client

- .01 This interpretation applies to a member of the attest engagement team or an individual in a position to influence the attest engagement (individual) who intends to seek or discuss potential employment or association with an attest client or is in receipt of a specific offer of employment from an attest client.
- .02 The undue influence and self-interest threats to compliance with the “Independence Rule” would not be at an acceptable level and independence would be impaired unless all of the following safeguards are met:
 - a. The individual promptly reports such consideration or offer to an appropriate person in the firm.
 - b. The individual immediately ceases participation in the engagement and does not provide any services to the attest client until the employment offer is rejected or employment is no longer sought.
 - c. If a covered member becomes aware that an individual is considering employment or association with an attest client, the covered member should notify an appropriate person in the firm.
 - d. The appropriate person in the firm should consider whether, based on the nature of the engagement and the individual involved, the firm should perform additional procedures to provide reasonable assurance that any work that the individual performed for the attest client was performed in compliance with the “Integrity and Objectivity Rule.”

- .03 If the individual accepts an offer of employment or otherwise becomes associated with the attest client in a key position, see the “Subsequent Employment or Association With an Attest Client” interpretation of the “Independence Rule” for additional requirements. [Prior reference: paragraph .04 of ET section 101]

1.275.210 Subsequent Employment or Association With an Attest Client

- .01 This interpretation applies to partners and professional employees who leave their firms and are subsequently employed by, or associated with, one of the firm’s attest clients in a key position.
- .02 The familiarity, self-interest, undue influence, or management participation threats to the member’s compliance with the “Independence Rule” would not be at an acceptable level and independence would be impaired unless all of the following safeguards in items *a–e* are met:

Individual Safeguards

- a. Amounts due to the former partner or professional employee for his or her previous interest in the firm and unfunded, vested retirement benefits cannot be material to the firm, and the underlying formula used to calculate the payments remain fixed during the payout period. The firm may adjust the retirement benefits for inflation and pay interest on amounts due.
- b. The former partner or professional employee is not in a position to influence the firm’s operations or financial policies.
- c. The former partner or professional employee does not participate or appear to participate in the firm’s business and is not otherwise associated with the firm, regardless of whether he or she is compensated for such participation or association, once employment or association with the attest client begins. For example, the individual would appear to participate in, or be associated with, the firm if
 - i. the individual provides consultation to the firm;
 - ii. the firm provides the individual with an office and related amenities, such as administrative and technology services;
 - iii. the individual’s name is included in the firm’s office directory; or
 - iv. the individual is identified as a member of the firm in membership lists of business, professional, or civic organizations, unless the member is clearly designated as retired.

Ongoing Attest Engagement Team Safeguards

- d. The ongoing attest engagement team should consider whether to modify the engagement procedures to adjust for the risk that the former partner’s or professional employee’s prior knowledge of the audit plan could reduce audit effectiveness. In addition, if the individual will have significant interaction with the attest engagement team, an appropriate individual in the firm should evaluate

whether the existing attest engagement team members have sufficient experience and stature to deal effectively with the individual in conducting the engagement.

- e. If the former partner or professional employee joins the attest client in a key position within one year of disassociating from the firm and has significant interaction with the attest engagement team, an appropriate professional in the firm should review the subsequent attest engagement to determine whether the engagement team members maintained the appropriate level of skepticism when evaluating the individual's representations and work. The professional applying this safeguard should have appropriate stature, expertise, and objectivity. In performing this review, the professional should consider relevant factors, such as the following:
 - i. The position that the individual assumed at the attest client.
 - ii. The position that the individual held at the firm.
 - iii. The nature of the services that the individual provided to the attest client. The professional should take appropriate actions, as deemed necessary, based on the results of this review.
- .03** The procedures performed in applying items *d–e* of paragraph .02 of this interpretation will depend on several factors, including the following:
- a. Whether the individual served on the engagement team
 - b. The positions that the individual held at the firm and has accepted at the attest client
 - c. The length of time that has elapsed since the individual left the firm
 - d. The circumstances of the individual's departure
- .04** An inadvertent and isolated failure to apply items *d–e* in paragraph .02 of this interpretation would not impair independence provided that the relevant parties perform the required procedures promptly upon discovery of the failure to do so and all other provisions of this interpretation are met. [Prior reference: paragraph .04 of ET section 101]

1.280 Memberships

1.280.010 Member of a Social Club

- .01** If a covered member belongs to a social club (for example, a country club, tennis club) that is an attest client and is required to acquire a pro rata share of the club's equity or debt securities, management participation, self-review, and self-interest threats to the covered member's compliance with the "Independence Rule" may exist. Threats would be at an acceptable level and independence would not be impaired provided that the club membership is essentially a social matter because such equity or debt ownership would not be considered to be a direct financial interest.

- .02 Threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#) if a [partner](#) or professional employee is simultaneously employed or associated with the [attest client’s](#) social club as described in the [“Simultaneous Employment or Association With an Attest Client” interpretation](#) of the “Independence Rule.” Accordingly, [independence](#) would be impaired. [Prior reference: paragraphs .033–.034 of ET section 191]

1.280.020 Member of a Trade Association

- .01 If a [covered member](#) belongs to a trade association that is an [attest client](#), management participation or self-review threats to the [covered member’s](#) compliance with the [“Independence Rule”](#) may exist.
- .02 Threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#) if a [partner](#) or professional employee is simultaneously employed or associated with the trade association as described in the [“Simultaneous Employment or Association With an Attest Client” interpretation](#) of the “Independence Rule.” Accordingly, [independence](#) would be impaired. [Prior reference: paragraphs .003–.004 of ET section 191]

1.280.030 Member of Common Interest Realty Association

- .01 If a [covered member](#) belongs to a common interest realty association (CIRA) because the [covered member](#) owns or leases real estate, management participation, self-interest, self-review, or advocacy threats to the [covered member’s](#) compliance of the [“Independence Rule”](#) may exist. Examples of CIRAs include cooperatives, condominium associations, planned unit developments, homeowners associations, and timeshare developments.
- .02 Threats would be at an acceptable level and [independence](#) would not be impaired provided that all of the following [safeguards](#) are met:
- a. The CIRA performs functions similar to local governments, such as public safety, road maintenance, and utilities.
 - b. The [covered member’s](#) annual assessment is not material to either the [covered member](#) or the CIRA’s operating budgeted assessments.
 - c. The liquidation of the CIRA or the sale of common assets would not result in a distribution to the [covered member](#).
 - d. The CIRA’s creditors would not have recourse to the [covered member’s](#) assets if the CIRA became insolvent.
- .03 Threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#) if a [partner](#) or professional employee is simultaneously employed or associated with the CIRA as described in the [“Simultaneous Employment or Association With an Attest Client” interpretation](#) of the “Independence Rule.” Accordingly, [independence](#) would be impaired.

- .04 A member who has a personal or professional relationship with a real estate developer or management company that is associated with the CIRA should consider the “Conflicts of Interest” interpretation under the “Integrity and Objectivity Rule.” [Prior reference: paragraphs .061–.062 of ET section 191]

1.280.040 Member of a Credit Union

- .01 When a covered member is a member of a credit union that is an attest client, the self-interest threat would be at an acceptable level, and independence would not be impaired, if the covered member individually qualifies to join the credit union other than by virtue of the professional services provided to the client. If, however, during the period of the professional engagement the member’s qualification to join the credit union is a result of the professional services provided to the client, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.
- .02 Covered members may be subject to additional restrictions, as described in the “Depository Accounts” interpretation, and the “Loans and Leases With Lending Institutions” interpretation of the “Independence Rule.” In addition, partners and professional employees may be subject to additional restrictions, as described in paragraph .03 of the “Overview of Financial Interests” interpretation of the “Independence Rule.” [Prior reference: paragraphs .150–.151 of ET section 191]

1.285 Gifts and Entertainment

1.285.010 Offering or Accepting Gifts or Entertainment

- .01 For purposes of this interpretation, the attest client also includes an individual in a key position with the attest client and individuals owning 10 percent or more of the attest client’s outstanding equity securities or other ownership interests.
- .02 Accepting a gift from an attest client during the period of the professional engagement may create undue influence or self-interest threats to a member’s compliance with the “Independence Rule.” If a member’s firm, a member of the attest engagement team, or an individual in a position to influence the attest engagement accepts a gift from an attest client and the value is not clearly insignificant to the recipient, the threat to the member’s compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.
- .03 Accepting entertainment from an attest client during the period of the professional engagement may create undue influence or self-interest threats to a member’s compliance with the “Independence Rule.” If a covered member accepts entertainment from an attest client that is not reasonable in the circumstances, the threats to the member’s compliance with the “Independence Rule” would not be at an acceptable level and could not be

reduced to an acceptable level by the application of [safeguards](#). Accordingly, [independence](#) would be impaired.

- .04** Offering gifts or entertainment to an attest client during the [period of the professional engagement](#) may create a familiarity threat to a [member's](#) compliance with the "[Independence Rule](#)." If a [covered member](#) offers a gift or entertainment to an attest client that is not reasonable in the circumstances, the threat to the [member's](#) compliance with the "[Independence Rule](#)" would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#). Accordingly, [independence](#) would be impaired.
- .05** The [member](#) should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. Examples of relevant facts and circumstances are the following:
- a. The nature of the gift or entertainment
 - b. The occasion giving rise to the gift or entertainment
 - c. The cost or value of the gift or entertainment
 - d. The nature, frequency, and value of other gifts and entertainment offered or accepted
 - e. Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
 - f. Whether other [attest clients](#) also participated in the entertainment
 - g. The individuals from the [attest client's](#) and [member's firm](#) who participated in the entertainment
- .06** Refer to the "[Offering or Accepting Gifts or Entertainment](#)" interpretation of the "Integrity and Objectivity Rule" (AICPA, *Professional Standards*, ET sec. 1.120.010) for additional guidance. [Prior reference: paragraphs .228–.229 of ET section 191]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Gifts_Basis_Document.pdf.

A nonauthoritative answer to an FAQ regarding campaign contributions made to the campaign of an individual that is associated with an attest client in a key position or holds a financial interest in an attest client that is material or enables the individual to exercise significant influence over the attest client is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-Genreal-FAQs.pdf.

1.290 Actual or Threatened Litigation

1.290.010 Actual or Threatened Litigation

- .01 The relationship between an attest client's management and a covered member must be characterized by complete candor and full disclosure regarding all aspects of the attest client's business operations. In addition, the covered member must not be biased so that the covered member can exercise professional judgment in evaluating management's financial reporting decisions.
- .02 Litigation or the expressed intention to commence litigation between a covered member and an attest client or its management and, in some cases, other parties during the period of the professional engagement may create self-interest or adverse interest threats to the member's compliance with the "Independence Rule." Accordingly, covered members should evaluate all such circumstances in accordance with this interpretation.
- .03 Litigation or the expressed intention to commence litigation between a covered member and an attest client or its management and, in some cases, other parties requires the covered member to assess the materiality of the litigation to the covered member, the covered member's firm, and the attest client, which should include an evaluation of the nature of the matter(s) underlying the litigation and all other relevant factors.

Litigation Between the Attest Client and Member

- .04 When an attest client's present management commences, or expresses an intention to commence, legal action against a covered member, the covered member and the attest client's management may be placed in adversarial positions in which management's willingness to make complete disclosures, and the covered member's objectivity may be affected by self-interest.
- .05 Accordingly, independence may be impaired whenever the covered member and the covered member's attest client or its management are in threatened or actual positions of material adverse interests due to actual or threatened litigation.
- .06 Situations involving actual or threatened litigation are complex and diverse, making it difficult to identify precise points at which threats to the covered member's compliance with the "Independence Rule" would be at an acceptable level. The following are examples of situations regarding litigation between covered members and attest clients in which threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by safeguards, thereby impairing independence:
 - a. An attest client's present management commences litigation alleging deficiencies in audit work performed for the attest client or expresses its intention to commence such litigation, and the covered member concludes that it is probable that such a claim will be filed.
 - b. A covered member commences litigation against an attest client's present management alleging management fraud or deceit.
- .07 If actual or threatened litigation is unrelated to the performance of a client's attest engagement and is for an amount that is not material to the covered member's firm or the attest client, threats to the covered member's compliance with the "Independence Rule"

would be at an acceptable level, and independence would not be impaired. Such claims may arise, for example, out of immaterial disputes regarding billings for services, results of tax or management services advice, or similar matters.

Litigation by Security Holders

- .08** A covered member may also become involved in litigation (primary litigation) in which the covered member and the attest client or its management are defendants. For example, one or more stockholders may bring a stockholders' derivative action or class-action lawsuit under the securities laws against the attest client or its management; the attest client's officers, directors, or underwriters; and covered members.
- .09** Such primary litigation by itself would not threaten the covered member's compliance with the "Independence Rule." However, if other circumstances exist that may create threats, the covered member should apply the "Conceptual Framework for Independence" interpretation to evaluate whether the threats are at an acceptable level. For example, threats would exist if cross-claims are filed against the covered member alleging that the covered member is responsible for any deficiencies in work performed for the attest client or if the covered member, as a defense, alleges that the attest client's management engaged in fraud or deceit.
- .10** The following are examples of situations in which threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by safeguards, thereby impairing independence:
- a. The attest client or its management or directors have filed cross-claims to protect a right to legal redress in the event of a future adverse decision in the primary litigation (or, in lieu of cross-claims, agreements to extend the statute of limitations), and there is a significant risk that the cross-claim will result in a settlement or judgment in an amount that is material to the covered member's firm or the attest client.
 - b. The attest client's underwriter and the attest client or its present management assert cross-claims against the covered member.
- .11** If only the underwriter or officers or directors of other clients of the covered member file cross-claims against the covered member, threats to the covered member's compliance with the "Independence Rule" would be at an acceptable level unless other circumstances exist that create threats to compliance with the "Independence Rule."

Other Third-Party Litigation

- .12** A lending institution or other creditor, security holder, or insurance company that alleges reliance on the attest client's financial statements as a basis for having extended credit or insurance coverage to an attest client may commence third-party litigation against the covered member to recover for their loss. An example is an insurance company commencing litigation either as a result of receiving an assignment of a claim or under subrogation rights against the covered member in the attest client's name to recover losses that the insurer reimbursed to the attest client. If the attest client is only the

nominal plaintiff, threats to the covered member's compliance with the “Independence Rule” would be at an acceptable level unless other circumstances exist, such as when the covered member alleges, as a defense, that present management engaged in fraud or deceit. The attest client is a nominal plaintiff when the insurance company or lender sues in the name of the attest client as a result of obtaining subrogation rights or an assignment from the attest client and the attest client does not have a beneficial interest in the claim.

- .13 If the real party in interest in the litigation (for example, the insurance company) is also the covered member's attest client (the plaintiff client), threats to the covered member's compliance with the “Independence Rule” may exist if the litigation carries a significant risk of a settlement or judgment in an amount that would be material to the covered member's firm or the plaintiff client.

Termination of Impairment

- .14 Threats to the covered member's compliance with the “Independence Rule” would be eliminated or reduced to an acceptable level when the parties reach a final resolution of the matter(s) at issue and the matter(s) no longer affects the relationship between the covered member and the attest client, as described in paragraph .01 of this interpretation. The covered member should determine whether the conditions of such resolution have effectively eliminated such threats or reduced them to an acceptable level. [Prior reference: paragraph .08 of ET section 101]

1.295 Nonattest Services

1.295.010 Scope and Applicability of Nonattest Services

- .01 When a member performs nonattest services for an attest client, self-review, management participation, or advocacy threats to the member's compliance with the “Independence Rule” may exist. When significant independence threats exist during the period of the professional engagement or the period covered by the financial statements (except as provided for in paragraph .03), independence would be impaired unless the threats are reduced to an acceptable level and any requirements included in the interpretations of the “Nonattest Services” subtopic under the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295) have been met.
- .02 For purposes of the interpretations of the “Nonattest Services” subtopic under the “Independence Rule,” the term member includes the member's firm.
- .03 *Period of engagement.* A member's independence would not be impaired if the member performed nonattest services that would have otherwise impaired independence during the period covered by the financial statements provided that all of the following conditions exist:
- a. The nonattest services were provided prior to period of the professional engagement.

- b. The nonattest services related to periods prior to the period covered by the [financial statements](#).
- c. The [financial statements](#) for the period to which the nonattest services relate were audited by another [firm](#) (or in the case of a review engagement, reviewed or audited by another [firm](#)).

Nonauthoritative answers to FAQs regarding the period of the professional engagement are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

- .04** *Activities related to attest services.* Performing attest services often involves communications between the member and [client](#) management regarding
- a. the [client's](#) selection and application of accounting standards or policies and financial statement disclosure requirements;
 - b. the appropriateness of the [client's](#) methods used in determining accounting and financial reporting;
 - c. adjusting journal entries that the member has prepared or proposed for [client](#) management consideration; and
 - d. the form or content of the [financial statements](#).

These communications are considered a normal part of the [attest engagement](#) and are not considered nonattest services subject to the “[General Requirements for Performing Nonattest Services](#)” and “[Documentation Requirements When Providing Nonattest Services](#)” interpretations (AICPA, *Professional Standards*, ET sec. 1.295.040 and 1.295.050) interpretations.

- .05** However, the member should exercise judgment in determining whether his or her involvement has become so extensive that it would constitute performing a separate service which would be subject to the [General Requirements for Performing Nonattest Services interpretation](#).
- .06** For example, 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. Such activities would not impair [independence](#) provided the requirements of the [Nonattest Services interpretations](#) are met (AICPA, *Professional Standards*, ET 1.295). [Paragraph effective for engagements covering periods beginning on or after December 15, 2014]

Nonauthoritative answers to FAQs regarding routine activities are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

- .07** *Engagements subject to independence rules of certain regulatory or standard-setting bodies.* Threats to compliance with the “[Independence Rule](#)” would not be at an acceptable level and could not be reduced to an acceptable level through the application

of [safeguards](#), and [independence](#) would be impaired, if a member is not in compliance with the [independence](#) regulations of authoritative regulatory bodies that are more restrictive than the [interpretations](#) of the “[Nonattest Services](#)” subtopic under the “Independence Rule” (examples of such authoritative bodies are the SEC, the Government Accountability Office, the Department of Labor [DOL], the Public Company Accounting Oversight Board, and state boards of accountancy) when a member performs nonattest services for an [attest client](#) and is required to be independent of the [attest client](#) under the regulations of the applicable regulatory body. [Prior reference: paragraph .05 of ET section 101] [Revised March 2013, to require activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations to be subject to this interpretation. Revisions are effective for engagements covering periods beginning on or after December 15, 2013. Early implantation is allowed.]

1.295.020 Cumulative Effect on Independence When Providing Nonattest Services

.01 [Place Holder for Content Under Discussion]

1.295.030 Management Responsibilities

- .01 If a member were to assume a management responsibility for an [attest client](#), the management participation threat would be so significant that no [safeguards](#) could reduce the threat to an acceptable level and [independence](#) would be impaired. It is not possible to specify every activity that is a management responsibility. However, 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.
- .02 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility and would, therefore, impair [independence](#) if performed an [attest client](#) include
- a. setting policy or strategic direction for the [attest client](#).
 - b. directing or accepting responsibility for actions of the [attest client's](#) employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards.
 - c. authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of a [attest client](#) or having the authority to do so.
 - d. preparing [source documents](#), in electronic or other form, evidencing the occurrence of a transaction.
 - e. having custody of a [attest client](#) assets.
 - f. deciding which recommendations of the member or other third parties to implement or prioritize.
 - g. reporting to those charged with governance on behalf of management.
 - h. serving as an [attest client's](#) stock transfer or escrow agent, registrar, general counsel or its equivalent.
 - i. accepting responsibility for the management of an [attest client's](#) project.

- j. accepting responsibility for the preparation and fair presentation of the [attest client's financial statements](#) in accordance with the applicable financial reporting framework.
- k. accepting responsibility for designing, implementing, or maintaining internal control.
- l. performing ongoing evaluations of the [attest client's](#) internal control as part of its monitoring activities.

[Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding management responsibilities and controllership services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.295.040 General Requirements for Performing Nonattest Services

.01 When a member performs a nonattest service for an [attest client](#), threats to the member's compliance with the "[Independence Rule](#)" exists. Unless an [interpretation](#) of the "[Nonattest Services](#)" subtopic under the "[Independence Rule](#)" states otherwise, threats would be at an acceptable level, and [independence](#) would not be impaired, when all the following [safeguards](#) are met:

- a. The member determines that the [attest client](#) and its management agree to
 - i. assume all management responsibilities as described in the "[Management Responsibilities](#)" [interpretation](#) (AICPA, *Professional Standards*, ET sec. 1.295.030).
 - ii. oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or reperform the services.
 - iii. evaluate the adequacy and results of the services performed.
 - iv. accept responsibility for the results of the services.
- b. The member does not assume management responsibilities (See ET section 1.295.030 [AICPA, *Professional Standards*]) when providing nonattest services and the member is satisfied that the [attest client](#) and its management will
 - i. be able to meet all of the criteria delineated in item a;
 - ii. make an informed judgment on the results of the member's nonattest services; and
 - iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.

In cases in which the [attest client](#) is unable or unwilling to assume these responsibilities (for example, the [attest client](#) cannot oversee the nonattest services provided or is unwilling to carry out such responsibilities due to lack of time or desire), the member's provision of nonattest services would impair [independence](#).

- c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the *attest client* (board of directors, audit committee, or management, as appropriate in the circumstances) regarding
 - i. objectives of the engagement,
 - ii. services to be performed,
 - iii. *attest client's* acceptance of its responsibilities,
 - iv. member's responsibilities, and
 - v. any limitations of the engagement.
- .02** The *safeguards* in paragraph .01 and the “[Documentation Requirements When Providing Nonattest Services](#)” interpretation of the “Independence Rule” do not apply to certain routine activities performed by the member, such as providing advice and responding to the *attest client's* questions as part of the *client*-member relationship. However, in providing such services, the member must not assume management responsibilities, as described in the “[Management Responsibilities](#)” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295.030). [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding suitable skill, knowledge, and/or experience are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.295.050 Documentation Requirements When Providing Nonattest Services

- .01** Before performing nonattest services, the member should document in writing the member’s understanding established with the *attest client*, as described in paragraph .01c of the “[General Requirements for Performing Nonattest Services](#)” interpretation of the “Independence Rule.”
- .02** Failure to prepare the required documentation does not impair *independence* provided that the member did establish the understanding with the *attest client*. However, failure to prepare the required documentation would be considered a violation of the “[Compliance With Standards Rule](#).”
- .03** The documentation requirement does not apply to nonattest services performed prior to the *period of the professional engagement* for an *attest client*. However, for nonattest services provided during the period covered by the *financial statements*, the member should document in writing that the requirements of the “[General Requirements for Performing Nonattest Services](#)” interpretation were met prior to the *period of the professional engagement*, including the requirement to establish an understanding with the *attest client*. [Prior reference: paragraph .05 of ET section 101]

Sample language for how to document your understanding with the attest client is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.295.105 Advisory Services

- .01** Self-review or management participation threats to compliance with the [“Independence Rule”](#) may exist when a member performs advisory services for an *attest client*.
- .02** If the member’s services are only advisory in nature and the member applies the [“General Requirements for Performing Nonattest Services” interpretation](#) of the “Independence Rule,” threats would be at an acceptable level and *independence* would not be impaired. For example, a member may
- a. provide advice, research materials, and recommendations to assist management in performing its functions and making decisions.
 - b. attend board meetings as a nonvoting advisor.
 - c. interpret [financial statements](#), forecasts, or other analyses.
 - d. provide management with advice regarding its potential plans, strategies, or relationships.
- .03** However, threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and *independence* is impaired, if a member assumes any management responsibilities, as described in the [“Management Responsibilities” interpretation](#). [Prior reference: paragraph .05 of ET section 101 and paragraphs .015–.016 of ET section 191]

1.295.110 Appraisal, Valuation, and Actuarial Services

- .01** Self-review or management participation threats to compliance with the [“Independence Rule”](#) may exist when a member performs appraisal, valuation, or actuarial service for an *attest client*.
- .02** Threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#) if the member performs an appraisal, a valuation, or an actuarial service for an *attest client* when (a) the services involve a significant degree of subjectivity and (b) the results of the service, individually or in the aggregate with other valuation, appraisal, or actuarial services, are material to the *attest client’s financial statements*. Accordingly, in those circumstances, *independence* would be impaired.
- .03** When performing appraisal, valuation, and actuarial services for an *attest client* that are permitted under this interpretation, all requirements of the [“General Requirements for Performing Nonattest Services” interpretation](#) of the “Independence Rule” should be met, including that all significant assumptions and matters of judgment are determined or approved by the client, and the client is in a position to have an informed judgment on, and accepts responsibility for, the results of the service.

Valuations Involving a Significant Degree of Subjectivity

- .04** Valuations performed in connection with, for example, ESOPs, business combinations, or appraisals of assets or liabilities generally involve a significant degree of subjectivity.

Accordingly, if these services produce results that are material to the [attest client's financial statements](#), [independence](#) would be impaired.

Actuarial Valuations of Pension or Postemployment Benefit Liabilities

- .05** An actuarial valuation of an [attest client's](#) pension or postemployment benefit liabilities generally does not involve a significant degree of subjectivity because reasonably consistent results are produced when the same assumptions and information are used in performing the valuation. Therefore, threats would be at an acceptable level and [independence](#) would not be impaired.

Appraisal, Valuations, and Actuarial Services for Nonfinancial Statement Purposes

- .06** Threats would be at an acceptable level, and [independence](#) would not be impaired, if a member provided appraisal, valuation, or actuarial services solely for nonfinancial statement purposes, such as appraisal, valuation, and actuarial services performed for tax planning or tax compliance, estate and gift taxation, and divorce proceedings. [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding appraisal, valuation, and actuarial services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.295.115 Benefit Plan Administration

- .01** When a member provides benefit plan administration services to an [attest client](#), self-review and management participation threats to the member's compliance with the "[Independence Rule](#)" may exist.
- .02** Notwithstanding the conclusions reached in paragraph .03 of this interpretation, a [member](#) should comply with the more restrictive independence provisions of the Employee Retirement Income Security Act (ERISA) of 1974 and DOL regulations when performing audits of employee benefit plans subject to those regulations.
- .03** If the member applies the "[General Requirements for Performing Nonattest Services](#)" [interpretation](#) of the "Independence Rule," threats would be at an acceptable level and [independence](#) would not be impaired if, for example, the member
- a. communicates summary plan data to a plan trustee.
 - b. advises management regarding the application and impact of provisions in a plan document.
 - c. processes certain transactions that have been initiated by plan participations or approved by the plan administrators using the member's electronic media, such as an interactive voice response system or Internet connection or other media. Such transactions may include processing investment or benefit elections, changes in

contributions to the plan, data entry, participant confirmations, and distributions and loans.

- d. prepares account valuations for plan participants using data collected through the member's electronic or other media.
 - e. prepares and transmits participant statements to plan participants based on data collected through the member's electronic or other media.
- .04** However, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and independence would be impaired if, for example, a member
- a. makes policy decisions on behalf of management.
 - b. interprets the provisions in a plan document for a plan participant on behalf of management without first obtaining management's concurrence.
 - c. makes disbursements on behalf of the plan.
 - d. has custody of the plan's assets.
 - e. serves in a fiduciary capacity, as defined by ERISA. [Prior reference: paragraph .05 of ET section 101]

1.295.120 Bookkeeping, Payroll, and Other Disbursements

- .01** When a member provides bookkeeping, payroll, and other disbursement services to an attest client, self-review and management participation threats to the covered member's compliance with the "Independence Rule" may exist.
- .02** However, if the member applies the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired if, for example, a member
- a. records transactions to an attest client's general ledger when management has determined or approved the account classifications for the transaction.
 - b. posts client-coded transactions to an attest client's general ledger.
 - c. prepares financial statements based on information in the attest client's trial balance.
 - d. posts client-approved journal or other entries to an attest client's trial balance.
 - e. proposes standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the attest client. Prior to the member posting these journal entries or changes, the member should be satisfied that management has reviewed the entries and understands the nature of the proposed entries and the impact the entries will have on the attest client's financial statements.
 - f. generates unsigned checks using records provided and approved by the attest client.

- g. processes an attest client's payroll using payroll time records that the attest client has provided and approved.
 - h. transmits client-approved payroll or other disbursement information to a bank or similar entity subsequent to the attest client's review and authorization for the member to make the transmission. Prior to such transmission, the attest client is responsible for making the arrangements with the bank or similar entity to limit the corresponding individual payments regarding the amount and payee. In addition, once transmitted, the attest client must authorize the bank or similar entity to process the payroll information.
 - i. prepares a reconciliation (for example, bank and accounts receivable) that identifies reconciling items for the client's evaluation.
- .03** However, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and independence would be impaired, if, for example, a member
- a. determines or changes journal entries, any account coding or classification of transactions, or any other accounting records without first obtaining the attest client's approval.
 - b. authorizes or approves transactions.
 - c. prepares source documents.
 - d. makes changes to source documents without the attest client's approval.
 - e. accepts responsibility to authorize payment of attest client funds, electronically or otherwise, except for electronic payroll tax payments when the member complies with the requirements of the “Tax Services” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.295.160).
 - f. accepts responsibility to sign or cosign an attest client's checks, even if only in emergency situations.
 - g. maintains an attest client's bank account or otherwise has custody of an attest client's funds or makes credit or banking decisions for the attest client.
 - h. approves vendor invoices for payment. [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding bookkeeping services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.295.125 Business Risk Consulting

- .01** When a member provides business risk consulting services to an attest client, self-review and management participation threats to the covered member's compliance with the “Independence Rule” may exist.

- .02** However, if the member applies the [“General Requirements for Performing Nonattest Services” interpretation](#) of the “Independence Rule,” threats would be at an acceptable level and [independence](#) would not be impaired if, for example, a member
- a. assists management in its assessment of the [attest client’s](#) business risk control processes.
 - b. recommends improvements to an [attest client’s](#) business risk control processes and assists in the implementation of these improvements.
- .03** However, threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and [independence](#) would be impaired, if, for example, a member
- a. makes or approves business risk decisions.
 - b. presents business risk considerations to the board or others on behalf of management. [Prior reference: paragraph .05 of ET section 101]

1.295.130 Corporate Finance Consulting

- .01** When a member provides corporate finance consulting services to an [attest client](#) the self-review, management participation and advocacy threats to the [covered member’s](#) compliance with the [“Independence Rule”](#) may exist.
- .02** However, if the member applies the [“General Requirements for Performing Nonattest Services” interpretation](#) of the “Independence Rule,” threats would be at an acceptable level and [independence](#) would not be impaired if, for example, a member
- a. assists management in developing its corporate strategies.
 - b. assists management in identifying possible sources of capital that meet the [attest client’s](#) specifications or criteria.
 - c. introduces management to possible sources of capital that meet the [attest client’s](#) specifications or criteria.
 - d. assists management in analyzing the effects of proposed transactions with potential buyers, sellers, or capital sources.
 - e. advises an [attest client](#) during its negotiations with potential buyers, sellers, or capital sources.
 - f. assists the [attest client](#) in drafting its offering document or memorandum.
 - g. participates with management in its transaction negotiations in an advisory capacity.
 - h. is named as a financial adviser in an [attest client’s](#) private placement memoranda or offering documents.
- .03** However, threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and [independence](#) would be impaired, if, for example, a member

- a. commits the [attest client](#) to the terms of a transaction.
- b. consummates a transaction on behalf of the [attest client](#).
- c. acts as a promoter, an underwriter, a broker-dealer, or a guarantor of an [attest client's](#) securities or as a distributor of private placement memoranda or offering documents.
- d. maintains custody of an [attest client's](#) securities. [Prior reference: paragraph .05 of ET section 101]

1.295.135 Executive or Employee Recruiting

- .01 When a member provides executive or employee recruiting services to an [attest client](#), self-review and management participation threats to the [covered member's](#) compliance with the "[Independence Rule](#)" may exist.
- .02 However, if the member applies the "[General Requirements for Performing Nonattest Services](#)" [interpretation](#) of the "Independence Rule," threats would be at an acceptable level and [independence](#) would not be impaired if, for example, a member
 - a. recommends a position description or candidate specifications.
 - b. solicits and screens candidates based on [client](#)-approved criteria, such as required education, skills, or experience.
 - c. recommends qualified candidates to the [attest client](#) for their consideration based on [client](#)-approved criteria.
 - d. participates in employee hiring or compensation discussions in an advisory capacity.
- .03 However, threats to compliance with the "[Independence Rule](#)" would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and [independence](#) would be impaired, if, for example, a member
 - a. commits the [attest client](#) to employee compensation or benefit arrangements.
 - b. hires or terminates the [attest client's](#) employees. [Prior reference: paragraph .05 of ET section 101]

1.295.140 Forensic Accounting

- .01 For purposes of this interpretation, forensic accounting services are nonattest services that involve the application of (a) special skills in accounting, auditing, finance, quantitative methods or certain areas of the law, and research and (b) investigative skills to collect, analyze, and evaluate evidential matter and to interpret and communicate findings. Forensic accounting services consist of investigative services and litigation services.
- .02 For purposes of this interpretation, the term [attest client](#) refers to an underlying party to the litigation for whom the member is providing services, not the law firm that engages the member on behalf of the law firm's client. If the law firm that engages the member on behalf of the [member's attest client](#) is also an [attest client](#) of the member, the member

should consider the applicability of the “[Cooperative Arrangements With Attest Clients](#)” [interpretation](#) of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.265.010).

- .03** *Investigative services.* For purposes of this interpretation, investigative services include all forensic services that do not involve actual or threatened litigation, such as performing analyses or investigations that may require the same skills used in litigation services. When a member provides investigative services to an [attest client](#), self-review and management participation threats to the [covered member’s](#) compliance with the “[Independence Rule](#)” may exist. However, if the member applies the “[General Requirements for Performing Nonattest Services](#)” [interpretation](#) of the “Independence Rule,” threats would be at an acceptable level and [independence](#) would not be impaired.
- .04** *Litigation services.* For purposes of this interpretation, litigation services recognize the role of the member as an expert or a consultant and consist of providing assistance for actual or potential legal or regulatory proceedings before a trier of fact in connection with the resolution of disputes between parties. Litigation services consist of expert witness services, litigation consulting services, or other litigation services:
- a. *Expert witness services.* For purposes of this interpretation, expert witness services are those litigation services in which a member is engaged to render an opinion before a trier of fact about the matter(s) in dispute based on the member’s expertise, rather than his or her direct knowledge of the disputed facts or events:
 - i. Expert witness services create the appearance that a member is advocating or promoting an [attest client’s](#) position. Therefore, the advocacy threat would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#). Accordingly, if a member is engaged conditionally or unconditionally to provide expert witness services or expert testimony for an [attest client](#), [independence](#) would be impaired, except as discussed in the following item ii.
 - ii. However, threats to compliance with the “[Independence Rule](#)” would be at an acceptable level, and [independence](#) would not be impaired, if a member provides expert witness services for a large group of plaintiffs or defendants that includes one or more [attest clients](#) of the [firm](#), provided that at the outset of the engagement
 1. the member’s [attest clients](#) constitute less than 20 percent of the members of the group, voting interests of the group, and the claim.
 2. no [attest client](#) within the group is designated as the lead plaintiff or defendant of the group.
 3. no [attest client](#) has the sole decision-making power to select or approve the selection of the expert witness.
 - iii. *Fact witness testimony.* Acting as a fact witness (also referred to as a “percipient witness” or “sensory witness”) would not be considered a nonattest service. Fact witness testimony is based on the member’s direct knowledge of the matters, facts, or events in dispute obtained through the

member's performance of prior professional services for the attest client. As a fact witness, the member's role is to provide factual testimony to the trier of fact. While testifying as a fact witness, the trier of fact or counsel may question a member about the member's opinions pertaining to matters within the member's area of expertise. Answering such questions would not impair the member's independence.

- iv. In determining whether the member's services are considered expert witness services or fact witness testimony, members should refer to Rules 701–703 of Article VII, "Opinions and Expert Testimony," of the *Federal Rules of Evidence* and other applicable laws, regulations, and rules.
 - v. When providing expert witness services or fact witness testimony, members are required to comply with the "Integrity and Objectivity Rule."
- b. *Litigation consulting services*. For purposes of this interpretation, litigation consulting services are those litigation services in which a member provides advice about the facts, issues, or strategy pertaining to a matter. The consultant does not testify as an expert witness before a trier of fact:
- i. When a member provides litigation consulting services the advocacy and management participation threats to the covered member's compliance with the "Independence Rule" may exist. However, if the member applies the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired. For purposes of complying with paragraph .01b of the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," the attest client may designate its attorney to oversee the litigation consulting services.
 - ii. However, if the member providing litigation consulting services subsequently agrees to serve as an expert witness, threats to the member's compliance with the "Independence Rule" may exist. Accordingly, independence would be impaired.
- c. *Other litigation services*. The advocacy threat would not be at acceptable level and could not be reduced to an acceptable level by the application of safeguards if a member serves as a trier of fact, a special master, a court-appointed expert, or an arbitrator (including serving on an arbitration panel) in a matter involving an attest client. These services create the appearance that the member is not independent; accordingly, independence would be impaired.
- d. However, if the member applies the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired if a member serves as a mediator or any similar role in a matter involving an attest client, provided that the member is not making any decisions on behalf of the parties but, rather, is acting as a facilitator by assisting the parties in reaching their own agreement. When providing such services, the member should consider the

requirements of the [“Conflicts of Interest” interpretation](#) of the “Integrity and Objectivity Rule.” [Prior reference: paragraph .05 of ET section 101]

- .05** See www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/transition%20periods.pdf for transition provision for engagements commenced prior to February 28, 2007.
- .06** When providing any type of forensic accounting service, members are required to comply with the [“Integrity and Objectivity Rule.”](#)

1.295.145 Information Systems Design, Implementation, or Integration

- .01** When a member provides information systems design, implementation, or integration services to an [attest client](#), self-review and management participation threats to the [covered member’s](#) compliance with the [“Independence Rule”](#) may exist.
- .02** However, if the member applies the [“General Requirements for Performing Nonattest Services” interpretation](#) of the “Independence Rule,” threats would be at an acceptable level and [independence](#) would not be impaired if, for example, a member
- a. installs or integrates an [attest client’s](#) financial information system that the member did not design or develop (for example, an off-the-shelf accounting package).
 - b. assists in setting up the [attest client’s](#) chart of accounts and [financial statement](#) format with respect to the [attest client’s](#) financial information system.
 - c. designs, develops, installs, or integrates an [attest client’s](#) information system that is unrelated to the [attest client’s financial statements](#) or accounting records.
 - d. provides training and instruction to an [attest client’s](#) employees on an information and control system.
 - e. performs network maintenance, such as updating virus protection, applying routine updates and patches, or configuring user settings consistent with management’s request.
- .03** However, threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and [independence](#) would be impaired, if, for example, a member
- a. designs or develops an [attest client’s](#) financial information system.
 - b. makes other than insignificant modifications to source code underlying an [attest client’s](#) existing financial information system.
 - c. supervises [attest client](#) personnel in the daily operation of an [attest client’s](#) information system.
 - d. operates an [attest client’s](#) network. [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding information systems design, implementation, or integration services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.295.150 Internal Audit

- .01** For purposes of this interpretation, internal audit services involve assisting the *attest client* in the performance of its internal audit activities, sometimes referred to as “internal audit outsourcing.” When a member provides internal audit services to an *attest client*, self-review and management participation threats to the *covered member’s* compliance with the “Independence Rule” may exist.
- .02** The *attest client’s* management is responsible for directing the internal audit function, including the management thereof. Such responsibilities include, but are not limited to, designing, implementing and maintaining internal control. Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of *safeguards*, and *independence* would be impaired, if the *attest client* outsources the internal audit function to the member, whereby the member, in effect, manages the *attest client’s* internal audit activities.
- .03** However, except for the outsourcing services discussed in paragraph .02, threats to compliance with the “Independence Rule” would be at an acceptable level and *independence* would not be impaired if the member assists the *attest client* in performing financial and operational internal audit activities, provided that, in addition to the “General Requirements for Performing Nonattest Services” interpretation of the “Independence Rule,” the member is satisfied that management
- a. designates an individual or individuals who possess suitable skill, knowledge, and/or experience, preferably within senior management, to be responsible for the internal audit function.
 - b. determines the scope, risk, and frequency of internal audit activities, including those the member will perform in providing the services.
 - c. evaluates the findings and results arising from the internal audit activities, including those the member will perform in providing the services.
 - d. evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures.
- .04** For example, if the member applies the *safeguards* in paragraph .03, the member may assess whether performance is in compliance with management’s policies and procedures, identify opportunities for improvement, and recommend improvement or further action for management consideration and decision making.
- .05** The member may assist the individual responsible for the internal audit function in performing preliminary audit risk assessments, preparing audit plans, and recommending audit priorities. The member should also be satisfied that those charged with governance are informed about the member’s and management’s respective roles and responsibilities

in connection with the engagement. Such information should provide those charged with governance a basis for developing guidelines for management and the member to follow in carrying out these responsibilities and monitoring how well the respective responsibilities have been met.

- .06** Threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and [independence](#) would be impaired, if, for example, in addition to those activities listed in the [“Management Responsibilities” interpretation](#) of the “Independence Rule,” a member
- a. performs ongoing evaluations (see paragraph .10 that follows) or control activities (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) that affect the execution of transactions or ensure that transactions are properly executed or accounted for, or both, and performs 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.
 - b. performs 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.
 - c. has [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.
 - d. determines which, if any, recommendations for improving the internal control system should be implemented.
 - e. reports to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function.
 - f. approves or is 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.
 - g. is 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).
- .07** *Monitoring activities.* Designing, implementing, or maintaining the [attest client’s](#) monitoring activities are management responsibilities. Accordingly, [independence](#) would be impaired if a member accepts responsibility for performing such activities. Monitoring activities are procedures performed to assess whether components of internal control are present and functioning. Monitoring can be done through ongoing evaluations, separate evaluations, or some combination of the two. Ongoing evaluations are generally defined, routine operations built in to the [attest client’s](#) business processes and performed on a real-time basis. Ongoing evaluations, including managerial activities and everyday

supervision of employees, monitor the presence and functioning of the components of internal control in the ordinary course of managing the business. A member who performs such activities for an [attest client](#) would be considered to be accepting responsibility for maintaining the [attest client's](#) internal control. Accordingly, the management participation threat created by a member performing ongoing evaluations is so significant that no [safeguards](#) could reduce the threat to an acceptable level.

- .08 Separate evaluations are conducted periodically and generally not ingrained within the business but can be useful in taking a fresh look at whether internal controls are present and functioning. Such evaluations include observations, inquiries, reviews, and other examinations, as appropriate, to ascertain whether controls are designed, implemented, and conducted. The scope and frequency of separate evaluations is a matter of judgment and vary depending on assessment of risks, effectiveness of ongoing evaluations, and other considerations. Because separate evaluations are not built into the [attest client's](#) business process, separate evaluations generally do not create a significant management participation threat to [independence](#).
- .09 Members should refer to the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control—Integrated Framework*, for additional guidance on monitoring activities and distinguishing between ongoing and separate evaluations.
- .10 Members should use judgment in determining whether otherwise permitted internal audit services performed may result in a significant management participation threat to [independence](#), considering factors such as the significance of the controls being tested, the scope or extent of the controls being tested in relation to the overall financial statements of the client, as well as the frequency of the internal audit services. If the threat to [independence](#) is considered significant, the member should apply [safeguards](#) to eliminate or reduce the threat to an acceptable level. If no [safeguards](#) could reduce the threat to an acceptable level, then [independence](#) would be impaired.
- .11 *Attest-related services.* Services considered extensions of the member's audit scope applied in the audit of the [attest client's financial statements](#), such as confirming accounts receivable and analyzing fluctuations in account balances, are not considered internal audit services and would be subject to this interpretation even if the extent of such testing exceeds that required by generally accepted auditing standards (GAAS). In addition, engagements performed under the attestation standards would not be considered internal audit services and, therefore, would not impair [independence](#). [Prior reference: paragraph .05 of ET section 101]
- .12 When a member performs internal audit services that would not impair [independence](#) under this [interpretation](#) and is subsequently engaged to perform an attestation engagement to report on management's assertion regarding the effectiveness of its internal control, [independence](#) would not be considered impaired, provided the member is satisfied that [attest client](#) management does not rely on the member's work as the primary basis for its assertion. [Prior reference: paragraph .05 of ET section 101] [The revisions to

this interpretation made in May 2013 are effective for engagements covering periods beginning on or after December 15, 2013. Early implementation is allowed.]

1.295.155 Investment Advisory or Management

- .01** When a member provides investment advisory or management services to an *attest client*, self-review and management participation threats to the *covered member's* compliance with the "Independence Rule" may exist.
- .02** If the member applies the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and *independence* would not be impaired if, for example, a member
- a. recommends the *attest client's* allocation of funds among various investments or asset classes based upon the *attest client's* desired rate of return, risk tolerance, or other parameters.
 - b. performs recordkeeping and reporting of the *attest client's* portfolio balances, including providing the *attest client* with a comparative analysis of the *attest client's* investments to third-party benchmarks.
 - c. evaluates the manner in which an *attest client's* portfolio is being managed by investment account managers, including assessing whether the managers are
 - i. following the guidelines of the *attest client's* investment policy statement.
 - ii. meeting the *attest client's* investment objectives.
 - iii. conforming to the *attest client's* stated investment parameters or risk tolerance.
 - d. transmits an *attest client's* investment selection, with the *attest client's* consent, to the *attest client's* broker-dealer or equivalent, provided that the *attest client* has authorized the broker-dealer or equivalent to execute the transaction.
- .03** However, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of *safeguards*, and *independence* would be impaired, if, for example, a member
- a. makes investment decisions on behalf of management or otherwise has discretionary authority over an *attest client's* investments.
 - b. executes a transaction to buy or sell an *attest client's* investments.
 - c. has custody of an *attest client's* assets, such as taking temporary possession of securities purchased by an *attest client*. [Prior reference: paragraph .05 of ET section 101]

1.295.160 Tax Services

- .01** For purposes of this interpretation, tax services include preparation of a tax return, transmittal of a tax return, and transmittal of any related tax payment to the taxing authority; signing and filing a tax return; having a power of attorney limited strictly to tax

matters; and authorized representation of attest clients in administrative proceedings before a taxing authority.

- .02** For purposes of this interpretation, a tax return includes all tax filings, including information tax forms, such as estimated tax vouchers; extension forms; and Forms 990, 5500, 1099, and W-2, filed with a taxing authority or other regulatory agency.
- .03** *Preparation and transmittal.* When a member prepares a tax return and transmits the tax return and related tax payment to a taxing authority in paper or electronic form, self-review and management participation threats to the member's compliance with the "Independence Rule" may exist. If the member applies the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired, provided that the member does not have custody or control over the attest client's funds or assets and the individual designated by the attest client to oversee the tax services
- a. reviews and approves the tax return and related tax payment.
 - b. if required for filing, signs the tax return prior to the member transmitting the return to the taxing authority.

Making electronic tax payments authorized by an attest client pursuant to a taxing authority's prescribed criteria, as discussed in paragraph .04; affixing the attest client's depository account information on a tax return; or remitting an attest client's check made payable to the taxing authority are not considered having custody or control over an attest client's funds.

- .04** If the member applies the "General Requirements for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired when a member signs and files a tax return on behalf of management, provided that the member has the legal authority to do so and
- a. the taxing authority has prescribed procedures in place for an attest client to permit a member to sign and file a tax return on behalf of the attest client (for example, Forms 8879 or 8453), and such procedures meet, at the minimum, standards for electronic return originators and officers outlined in Form 8879, or
 - b. an individual in management who is authorized to sign and file the attest client's tax return provides the member with a signed statement that clearly identifies the return being filed and represents that such individual
 - i. is authorized to sign and file the tax return.
 - ii. has reviewed the tax return, including accompanying schedules and statements, and it is true, correct, and complete to the best of the individual's knowledge and belief.
 - iii. authorizes the member or another named individual in the member's firm to sign and file the tax return on the attest client behalf.

- .05** *Authorized representation in administrative proceedings.* If the member applies the "General Requirements for Performing Nonattest Services" interpretation of the

“Independence Rule,” threats would be at an acceptable level and *independence* would not be impaired if a member acts as the *attest client’s* authorized representative in administrative proceedings before a taxing authority, provided that the member obtains the *attest client’s* agreement prior to committing the *attest client* to a specific resolution with the taxing authority. [Prior reference: paragraph .05 of ET section 101]

- .06** *Power of attorney.* When a member has an *attest client’s* power of attorney the self-review, management participation and advocacy threats to the *covered member’s* compliance with the “Independence Rule” may exist. If the member applies the “General Requirements for Performing Nonattest Services” interpretation of the “Independence Rule,” threats would be at an acceptable level and *independence* would not be impaired, provided that the member’s use of the power of attorney is limited strictly to tax matters and the member does not bind the *attest client* to any agreement with a taxing authority or other regulatory agency. [No prior reference: new content]
- .07** *Representation in court.* Threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level through the application of *safeguards*, and *independence* would be impaired, if a member represents an *attest client* in a court to resolve a tax dispute. For purposes of this interpretation, court encompasses a tax, district, or federal court of claims and the equivalent state, local, or foreign forums.
- .08** See www.aicpa.org/interestareas/professionalethics/community/downloadabledocuments/transition%20periods.pdf for transition provision for engagements commenced prior to February 28, 2007. [Prior reference: paragraph .05 of ET section 101]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsNonAttestServices.doc.

In addition, nonauthoritative answers to FAQs regarding performance tax services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc.

1.297 Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements

1.297.010 Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements

- .01** The “Independence Rule” and its *interpretations* apply to all *attest engagements*. However, when performing engagements to issue reports in accordance with Statements on Standards for Attestation Engagements (SSAEs), when *independence* is required, or when the *member’s* compilation report does not disclose a lack of *independence*, the

covered member needs to be independent with respect to the responsible party(ies), as defined in the SSAEs.

- .02 If the individual or entity that engages the covered member is not the responsible party, the covered member need not be independent of that individual or entity. However, the covered member should consider the “Conflicts of Interest” interpretation of the “Integrity and Objectivity Rule,” with regard to any relationships that may exist with the individual or entity that engages the covered member to perform these services.
- .03 In addition, application of the “Independence Rule” is further modified as set forth in the “Agreed-Upon Procedures Engagements in Accordance With SSAEs” interpretation and the “Engagements, Other Than AUPs, Performed in Accordance With SSAEs” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.297.020 and 1.297.030, respectively). [Prior reference: paragraph .13 of ET section 101]

1.297.020 Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs

- .01 For purposes of this interpretation, subject matter is as defined in the SSAEs.
- .02 When performing agreed-upon procedures (AUP) engagements in accordance with the SSAEs, the application of the “Independence Rule” is modified, as described in the “Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” interpretation of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.297.010) and this interpretation.
- .03 When providing nonattest services that would otherwise impair independence under the interpretations of the “Nonattest Services” subtopic under the “Independence Rule.” threats would be at an acceptable level and independence would not be impaired, provided that the nonattest services do not relate to the specific subject matter of the SSAE engagement. Threats would be at an acceptable level and independence would also not be impaired if the “General Requirements for Performing Nonattest Services” interpretation of the “Independence Rule” were not applied when providing the nonattest services, provided that the nonattest services do not relate to the specific subject matter of the AUP engagement.
- .04 In addition, when performing an AUP engagement under the SSAEs, threats would be at an acceptable level and independence would not be impaired, provided that the following covered members and their immediate families are independent of the responsible party(ies):
 - a. Individuals participating on the AUP engagement team
 - b. Individuals who directly supervise or manage the AUP engagement partner or partner equivalent

- c. Individuals who consult with the [attest engagement team](#) regarding technical or industry-related issues specific to the AUP engagement

[Paragraph revised March 2013, for partner equivalents revision effective for engagements covering periods beginning on or after December 15, 2014.]

- .05 Furthermore, threats to compliance with the [“Independence Rule”](#) would not be at an acceptable level and could not be reduced to an acceptable level by the application of [safeguards](#), and [independence](#) would be impaired, if the [firm](#) had a material financial relationship with the responsible party(ies) that was covered by any of the following interpretations of the “Independence Rule:”
 - a. Paragraph .02 of [“Overview of Financial Interests”](#)
 - b. [“Trustee or Executor”](#)
 - c. [“Joint Closely Held Investments”](#)
 - d. [“Loans”](#) [Prior reference: paragraph .13 of ET section 101]

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

- .01 For purposes of this interpretation, subject matter is as defined in the SSAEs.
- .02 When performing an engagement, other than an AUP, in accordance with the SSAEs, the application of the [“Independence Rule”](#) is modified, as described in the [“Application of the Independence Rule to Engagements Performed Under Statements on Standards for Attestation Engagements” interpretation](#) of the “Independence Rule” and this interpretation.
- .03 When providing nonattest services that would otherwise impair [independence](#) under the [interpretations](#) of the [“Nonattest Services” subtopic](#), threats would be at an acceptable level and [independence](#) would not be impaired provided that the following safeguards are met:
 - a. Nonattest services do not relate to the specific subject matter of the SSAE engagement.
 - b. The [“General Requirements for Performing Nonattest Services” interpretation](#) of the “Independence Rule” are met when providing the nonattest service. [Prior reference: paragraph .13 of ET section 101]

1.300 General Standards

1.300.001 General Standards Rule

.01 A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council.

- a. Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
- b. Due Professional Care. Exercise due professional care in the performance of professional services.
- c. Planning and Supervision. Adequately plan and supervise the performance of professional services.
- d. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

(See Appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards.") [Prior reference: paragraph .01 of ET section 201]

1.300.005 Application of the Conceptual Framework for Members in Public Practice

.01 In the absence of an interpretation of the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.300.001) that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Public Practice."

.02 A member would be considered in violation of the "General Standards Rule" if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.300.010 Competence

.01 Competence, in this context, means that the member or member's staff possesses the appropriate technical qualifications to perform professional services and, as required, supervises and evaluates the quality of work performed. Competence encompasses knowledge of the profession's standards, the techniques and technical subject matter involved, and the ability to exercise sound judgment in applying such knowledge in the performance of professional services.

.02 A member's agreement to perform professional services implies that the member has the necessary competence to complete those services according to professional standards and to apply the member's knowledge and skill with reasonable care and diligence. However, the member does not assume a responsibility for infallibility of knowledge or judgment.

- .03 The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. A normal part of providing professional services involves performing additional research or consulting with others to gain sufficient competence.
- .04 If a member is unable to gain sufficient competence, the member should suggest, in fairness to the client and public, the engagement of a competent person to perform the needed professional service, either independently or as an associate. [Prior reference: paragraph .02 of ET section 201]

1.300.020 Supervision of a Specialist on Consulting Engagements

- .01 A member who employs a specialist to perform consulting services for the member's clients must be qualified to supervise and evaluate the work of that specialist. Although the member is not required to be able to perform each of the specialist's tasks, the member should be able to define the tasks and evaluate the end product. [Prior reference: paragraphs .017–.018 of ET section 291]

1.300.030 Submission of Financial Statements

- .01 If a member prepares or submits, or both, financial statements as a stockholder, a partner, a director, an officer, or an employee of an entity using the firm's letterhead or similar identification, the member should comply with the "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001), including any requirements to disclose a lack of independence in the member's report.
- .02 Refer to the "Use of a CPA Credential" interpretation of the "Acts Discreditable Rule" (AICPA, *Professional Standards*, ET sec. 2.400.100) and the "Submission of Financial Statements" interpretation of the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 2.300.030) for additional guidance. [Prior reference: paragraphs .019–.020 of ET section 291]

1.300.040 Use of a Third-Party Service Provider

- .01 A member who uses a third-party service provider to assist the member in providing professional services, such as bookkeeping, tax preparation, or consulting or attest services, including related clerical or data entry functions, is required to comply with the "General Standards Rule" and the "Compliance With Standards Rule." To accomplish this
- before using a third-party service provider, the member should ensure that the third-party service provider has the required professional qualifications, technical skills, and other resources. Factors that can be helpful in evaluating a prospective third-party service provider include business, financial, and personal references from banks, other CPAs, and other customers of the third-party service provider; the third-party service provider's professional reputation and recognition in the community; published materials (articles and books that he or she has authored); and the member's personal evaluation of the third-party service provider.

- b. the *member* must adequately plan and supervise the *third-party service provider's professional services* so that the *member* ensures that the services are performed with competence and due professional care. The *member* must also obtain sufficient relevant data to support the work product and comply with all technical standards applicable to the *professional services*.
- .02 The *member's* responsibility for planning and supervising the *third-party service provider's* work does not extend beyond the requirements of applicable professional standards, which may vary depending upon the nature of the *member's* engagement.
- .03 Refer to the “[Use of a Third-Party Service Provider](#)” interpretation of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.150.040) and the “[Disclosing Information to a Third-Party Service Provider](#)” interpretation of the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.040) for additional guidance. [Prior references: paragraphs .015–.016 and .023–.024 of ET section 291]

A nonauthoritative basis for conclusion document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsOutsourcing.pdf.

1.310 Compliance With Standards

1.310.001 Compliance With Standards Rule

.01 A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council. (See Appendix A) [Prior reference: paragraph .01 of ET section 202]

1.310.005 Application of the Conceptual Framework for Members in Public Practice

.01 In the absence of an interpretation of the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”

.02 A member would be considered in violation of the “Compliance With Standards Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.320 Accounting Principles

1.320.001 Accounting Principles Rule

- .01** A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement. (See Appendix A) [Prior reference: paragraph .01 of ET section 203]

1.320.005 Application of the Conceptual Framework for Members in Public Practice

- .01** In the absence of an interpretation of the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. 1.320.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”
- .02** A member would be considered in violation of the “Accounting Principles Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.320.010 Responsibility for Affirming that Financial Statements Are in Conformity With the Applicable Financial Reporting Framework

- .01** A member shall not state affirmatively that an entity’s financial statements or other financial data are presented in conformity with GAAP if such statements or data contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles. Members who affirm that financial statements or other financial data are presented in conformity with the applicable GAAP should comply with the “Accounting Principles Rule.” A member’s representation in a letter or another communication that an entity’s financial statements are in conformity with GAAP may be considered an affirmative statement within the meaning of this rule with respect to the member who signed the letter or other communication (for example, the member signed a report to a regulatory authority). [Prior reference: paragraph .05 of ET section 203]

1.320.020 Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations

- .01** The “[Accounting Principles Rule](#)” authorizes [Council](#) to designate bodies to establish accounting principles. [Council](#) designated FASB as such a body and has resolved that FASB ASC constitutes accounting principles as contemplated in the rule. [Council](#) also designated GASB, with respect to Statements of Governmental Accounting Standards issued in July 1984 and thereafter, as the body to establish financial accounting principles for state and local governmental entities, pursuant to the “[Accounting Principles Rule](#).” [Council](#) also designated the Federal Accounting Standards Advisory Board (FASAB), with respect to Statements of Federal Accounting Standards adopted and issued in March 1993 and subsequently, as the body to establish accounting principles for federal government entities, pursuant to the “[Accounting Principles Rule](#).” [Council](#) also designated the International Accounting Standards Board (IASB) as an accounting body for purposes of establishing international financial accounting and reporting principles.
- .02** Reference to GAAP in the “[Accounting Principles Rule](#)” means those accounting principles promulgated by bodies designated by [Council](#), which are listed in [appendix A](#), “Council Resolution Designating Bodies to Promulgate Technical Standards.” The bodies designed by [Council](#) to promulgate accounting principles are
- a. FASAB,
 - b. FASB,
 - c. GASB, and
 - d. IASB.
- .03** The Professional Ethics Division will look to the codification or statements and any [interpretations](#) thereof issued by FASB, GASB, FASAB, or IASB in determining whether a [member](#) has departed from an accounting principle established in FASB ASC, a Statement of Governmental Accounting Standards, a Statement of Federal Accounting Standards, or International Financial Reporting Standards. [Prior reference: paragraph .03 of ET section 203]

1.320.030 Departures From Generally Accepted Accounting Principles

- .01** It is difficult to anticipate all the circumstances in which accounting principles may be applied. However, there is a strong presumption that adherence to GAAP would, in nearly all instances, result in [financial statements](#) that are not misleading. The “[Accounting Principles Rule](#)” recognizes that, upon occasion, there may be unusual circumstances when the literal application of GAAP would have the effect of rendering [financial statements](#) misleading. In such cases, the proper accounting treatment to apply is that which will not render the [financial statements](#) misleading.
- .02** The question of what constitutes unusual circumstances, as referred to in the “[Accounting Principles Rule](#),” is a matter of professional judgment involving the ability to support the position that adherence to a promulgated principle within GAAP would be regarded generally by reasonable persons as producing misleading [financial statements](#).
- .03** Examples of circumstances that may justify a departure from GAAP include new legislation or evolution of a new form of business transaction. Examples of circumstances

that would not justify departures from GAAP include an unusual degree of materiality or conflicting industry practices. [Prior reference: paragraph .02 of ET section 203]

- .04 If the statements or data contain such departures, see the [“Accounting Principles Rule”](#) for further guidance.

1.320.040 Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP

- .01 Reference to GAAP in the [“Accounting Principles Rule”](#) means those accounting principles promulgated by bodies designated by [Council](#), which are listed in [appendix A](#). The bodies designed by [Council](#) to promulgate accounting principles are
- a. FASAB,
 - b. FASB,
 - c. GASB, and
 - d. IASB.
- .02 [Financial statements](#) prepared pursuant to other accounting principles would be considered financial reporting frameworks other than GAAP within the context of the [“Accounting Principles Rule.”](#)
- .03 However, the [“Accounting Principles Rule”](#) does not preclude a [member](#) from preparing or reporting on [client financial statements](#) that have been prepared pursuant to financial reporting frameworks other than GAAP, such as
- a. financial reporting frameworks generally accepted in another country, including jurisdictional variations of International Financial Reporting Standards (IFRSs) such that the [client’s financial statements](#) do not meet the requirements for full compliance with IFRSs, as promulgated by the IASB;
 - b. financial reporting frameworks prescribed by an agreement or a contract; or
 - c. an other comprehensive basis of accounting, including statutory financial reporting provisions required by law or a U.S or foreign governmental regulatory body to whose jurisdiction the entity is subject.
- .04 In such circumstances, however, the [client’s financial statements](#) and [member’s](#) reports thereon should not purport that the [financial statements](#) are in accordance with GAAP, and the [financial statements](#) or reports on those [financial statements](#), or both, should clarify the financial reporting framework(s) used. [Prior reference: paragraph .06 of ET section 203]

1.400 Acts Discreditable

1.400.001 Acts Discreditable Rule

- .01 A member shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

1.400.005 Application of the Conceptual Framework for Members in Public Practice

- .01 In the absence of an interpretation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 1.400.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”
- .02 A member would be considered in violation of the “Acts Discreditable Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.400.010 Discrimination and Harassment in Employment Practices

- .01 A final determination, no longer subject to appeal, by a court or an administrative agency of competent jurisdiction that a member has violated any antidiscrimination laws of the United States, a state, or a municipality, including those related to sexual and other forms of harassment, would cause such member to be presumed to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .03 of ET section 501]

1.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers

- .01 A member who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA’s written authorization shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .07 of ET section 501]

1.400.030 Failure to File a Tax Return or Pay a Tax Liability

- .01 A member who fails to comply with applicable federal, state, or local laws or regulations regarding (a) the timely filing of the member’s personal tax returns or tax returns of the member’s firm that the member has the authority to timely file or (b) the timely remittance of all payroll and other taxes collected on behalf of others may be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .08 of ET section 501]

1.400.040 Negligence in the Preparation of Financial Statements or Records

- .01 A member shall be considered in violation of the “Acts Discreditable Rule” if the member, by virtue of his or her negligence

- a. makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity;
- b. fails to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry; or
- c. signs, or permits or directs another to sign, a document containing materially false and misleading information. [Prior reference: paragraph .05 of ET section 501]

1.400.050 Governmental Bodies, Commissions, or Other Regulatory Agencies

- .01 Many governmental bodies, commissions, or other regulatory agencies have established requirements, such as audit standards, guides, rules, and regulations, that members are required to follow in the preparation of financial statements or related information or in performing attest or similar services for entities subject to their jurisdiction. For example, the SEC; Federal Communications Commission; state insurance commissions; and other regulatory agencies, such as the PCAOB, have established such requirements.
- .02 If a member prepares financial statements or related information for purposes of reporting to such bodies, commissions, or regulatory agencies, the member should follow the requirements of such organizations, in addition to the applicable financial reporting framework.
- .03 If a member agrees to perform an attest or a similar service for the purpose of reporting to such bodies, commissions, or regulatory agencies, the member should follow such requirements, in addition to the applicable financial reporting framework.
- .04 A member's material departure from such requirements is a violation of the "Acts Discreditable Rule" unless the member discloses in the financial statements or his or her report, as applicable, that such requirements were not followed and the applicable reasons. [Prior reference: paragraph .06 of ET section 501]

1.400.055 Governmental Audits

- .01 Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to GAAS.
- .02 If a member accepts such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to GAAS.
- .03 Failure to do so is a violation of the "Acts Discreditable Rule" unless the member discloses in his or her report the fact that such requirements were not followed and the applicable reasons. [Prior reference: paragraph .04 of ET section 501]

1.400.060 Indemnification and Limitation of Liability Provisions

- .01** Certain governmental bodies, commissions, or other regulatory agencies (collectively, regulators) have established requirements through laws, regulations, or published interpretations that
- a. prohibit entities subject to their regulation (regulated entity) from including certain types of indemnification and limitation of liability provisions in agreements for the performance of audit or other attest services that are required by such regulators or
 - b. provide that the existence of such provisions disqualifies a member to render such services to these entities.

For example, federal banking regulators, state insurance commissions, and the SEC have established such requirements.

- .02** If a member enters into or directs or knowingly permits another individual to enter into a contract for the performance of audit or other attest services that are subject to the requirements of these regulators, the member should not include or knowingly permit or direct another individual to include an indemnification or limitation of liability provision that would cause the regulated entity or a member to be in violation of such requirements or that would disqualify a member from providing such services to the regulated entity. A member who enters into or directs or knowingly permits another individual to enter into such an agreement for the performance of audit or other attest services would be considered in violation of the “Act Discreditable Rule.”
- .03** Refer to the “Indemnification of a Covered Member” and “Indemnification of an Attest Client” interpretations of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.228.010 and 1.228.020, respectively) for additional guidance. [Prior reference: paragraph .09 of ET section 501]

1.400.070 Confidential Information Obtained From Employment or Volunteer Activities

- .01** A member should maintain confidentiality of his or her employer’s or firm’s (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer’s vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity).
- .02** For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.
- .03** A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close relative or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others

within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

- .04** When a member changes employment, a member should not use confidential employer information acquired as a result of the prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.
- .05** A member would be considered in violation of the "Acts Discreditable Rule" if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.
- .06** The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or in which such disclosure may be appropriate:
- a. Disclosure is permitted by law and authorized by the employer.
 - b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or
 - ii. inform the appropriate public authorities of violations of law that have been discovered.
 - c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
 - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
 - ii. protect the professional interests of a member in legal proceedings;
 - iii. comply with professional standards and other ethics requirements; or
 - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or those charged with governance.
 - d. Disclosure is permitted on behalf of the employer to
 - i. obtain financing with lenders;
 - ii. deal with vendors, clients, and customers; or
 - iii. deal with the employer's external accountant, attorneys, regulators, and other business professionals.

- .07** In deciding whether to disclose confidential employer information, relevant factors to consider include, but are not limited to, the following:
- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any.
 - b. Whether the parties to whom the communication may be addressed are appropriate recipients.
- .08** A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.
- .09** Refer to the “[Subordination of Judgment](#)” [interpretation](#) of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.130.020) and the “[Confidential Information](#)” [topic](#) (AICPA, *Professional Standards*, ET sec. 1.700) for additional guidance. [Prior reference: paragraph .10 of ET section 501]

1.400.090 False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services

- .01** A member would be in violation of the “[Acts Discreditable Rule](#)” if the member promotes or markets the member’s abilities to provide [professional services](#) or makes claims about the member’s experience or qualifications in a manner that is false, misleading, or deceptive.
- .02** Promotional efforts would be false, misleading, or deceptive if they contain any claim or representation that would be likely to cause a reasonable person to be misled or deceived. This includes any representation about CPA licensure or any other professional certification or accreditation that is not in compliance with the requirements of the relevant licensing authority or designating body.
- .03** Refer to the “[False, Misleading, or Deceptive Acts in Advertising or Solicitations](#)” [interpretation](#) of the “[Advertising and Other Forms of Solicitation Rule](#)” (AICPA, *Professional Standards*, ET sec. 1.600.010) for additional guidance. [No prior reference: new content]

1.400.100 Use of the CPA Credential

- .01** A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA credential. A member who fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of the “[Acts Discreditable Rule.](#)” [Prior reference .12 section 501]

1.400.200 Records Requests

Terminology

- .01** The following terms are defined subsequently solely for use with this interpretation:
- a. A client includes current and former *clients*.
 - b. A member includes *member* or the *member's firm*.
 - c. Client-provided records are accounting or other records, including hardcopy and electronic reproductions of such records, belonging to the client that were provided to the member by, or on behalf of, the client.
 - d. Member-prepared records are accounting or other records that the member was not specifically engaged to prepare and that are not in the client's books and records or are otherwise not available to the client, with the result that the client's financial information is incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents that are proposed or prepared by the member as part of an engagement (for example, an audit).
 - e. Member's work products are deliverables set forth in the terms of the engagement, such as tax returns.
 - f. Working papers are all other items prepared solely for purposes of the engagement and include items prepared by the
 - i. member, such as audit programs, analytical review schedules, and statistical sampling results and analyses.
 - ii. client at the request of the member and reflecting testing or other work done by the member.

Interpretation

- .02** Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body. For example, a member's state board(s) of accountancy may not permit a member to withhold certain records, notwithstanding fees due to the member for the work performed. Failure to comply with the more restrictive provisions contained in the rules and regulations of the applicable regulatory body concerning the return of certain records would constitute a violation of this interpretation.
- .03** The member should return client-provided records in the member's custody or control should be returned to the client at the client's request.
- .04** Unless a member and the client have agreed to the contrary, when a client makes a request for member-prepared records or a member's work products that are in the custody or control of the member that have not previously been provided to the client, the member should respond to the client's request as follows:

- a. The member should provide member-prepared records relating to a completed and issued work product to the client, except that such records may be withheld if fees are due to the member for that specific work product.
- b. Member's work products should be provided to the client, except that such work products may be withheld
 - i. if fees are due to the member for the specific work product;
 - ii. if the work product is incomplete;
 - iii. for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or
 - iv. if threatened or outstanding litigation exists concerning the engagement or member's work.

.05 Once a member has complied with these requirements, he or she is under no ethical obligation to

- a. comply with any subsequent requests to again provide records or copies of records described in paragraphs .03–.04. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.
- b. retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed.

[Prior reference: paragraph .02 of ET section 501]

.06 A member who has provided records to an individual designated or held out as the client's representative, such as the general partner, majority shareholder, or spouse, is not obligated to provide such records to other individuals associated with the client. [Prior reference: paragraphs .377–.378 of ET section 591]

.07 Working papers are the member's property, and the member is not required to provide such information to the client. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the member.

.08 In fulfilling a request for client-provided records, member-prepared records, or a member's work products, the member may

- a. charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the member provides the records to the client.
- b. provide the requested records in any format usable by the client. However, the member is not required to convert records that are not in electronic format to electronic format. If the client requests records in a specific format and the records are available in such format within the member's custody and control, the

client's request should be honored. In addition, the member is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records or the member was engaged to provide such formulas as part of a completed work product.

- c. make and retain copies of any records that the member returned or provided to the client.
- .09 A member who is required to return or provide records to the client should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made.
 - .10 The fact that the statutes of the state in which the member practices grant the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation. [Prior reference: paragraph .02 of ET section 501]
 - .11 A member would be considered in violation of the "[Acts Discreditable Rule](#)" if the member does not comply with the requirements of this interpretation.

1.400.210 Removing Client Files or Proprietary Information From a Firm

- .01 A *member* whose employment relationship is terminated would be considered in violation of the "[Acts Discreditable Rule](#)" if the *member* takes or retains (a) originals or copies (in any format) from the *firm's client* files or (b) proprietary information without the *firm's* permission, unless the *member* has a contractual arrangement with the *firm* allowing such action. [Prior reference: paragraphs .381–.382 of ET section 591]
- .02 The *firm's* ownership agreement would govern ownership of *client* files and proprietary information; accordingly, this interpretation would not apply to owners of the *firm*. [New content: not substantive change]

1.400.240 Use of Confidential Information From Nonclient Sources

- .01 If a *member* discloses confidential information obtained from a prospective *client* or nonclient without consent, the *member* would be in violation of the "[Acts Discreditable Rule](#)." [Prior reference: paragraphs .027–.028 of ET section 391 and new content.]

1.500 Fees and Other Types of Remuneration

1.500.008 Unpaid Fees

.01 Refer to the “[Fees](#)” [topic](#) of the “Independence Rule” for guidance. [No prior reference: not substantive change]

1.510 Contingent Fees

1.510.001 Contingent Fees Rule

.01 A [member](#) in public practice shall not

- a. Perform for a contingent fee any [professional services](#) for, or receive such a fee from a [client](#) for whom the [member](#) or the [member’s firm](#) performs,
 - i. an audit or review of a [financial statement](#); or
 - ii. a compilation of a [financial statement](#) when the [member](#) expects, or reasonably might expect, that a third party will use the [financial statement](#) and the [member’s](#) compilation report does not disclose a lack of [independence](#); or
 - iii. an examination of prospective financial information; or
- b. Prepare an original or amended tax return or claim for a tax refund for a contingent fee for any [client](#).

.02 The prohibition in a. above applies during the period in which the [member](#) or [member’s firm](#) is engaged to perform any of the services listed above and the period covered by any historical [financial statements](#) involved in any such listed services.

.03 Except as stated in the next sentence, a contingent fee is a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. Solely for purposes of this rule, fees are not regarded as being contingent if fixed by courts or other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

.04 A [member’s](#) fees may vary depending, for example, on the complexity of services rendered. [Prior reference: paragraph .01 of ET section 302]

1.510.005 Application of the Conceptual Framework for Members in Public Practice

.01 In the absence of an [interpretation](#) of the “[Contingent Fees Rule](#)” (AICPA, *Professional Standards*, ET sec. 1.510.001) that addresses a particular relationship or circumstance, a [member](#) should apply the “[Conceptual Framework for Members in Public Practice.](#)”

- .02 A member would be considered in violation of the “Contingent Fees Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.510.010 Tax Matters

- .01 This interpretation defines certain terms used in the “Contingent Fees Rule” and provides examples of the application of the rule in tax matters. When practicing before the IRS or before other taxing authorities, members should also comply with other applicable and more restrictive requirements.

Defined Terms

- .02 Preparation of an original or amended tax return or claim for tax refund includes giving advice on events that have occurred at the time that the advice is given if such advice is directly relevant to determining the existence, character, or amount of a schedule, an entry, or another portion of a return or claim for refund.
- .03 A fee is considered determined based on the findings of governmental agencies and, therefore, is not a contingent fee if the member can demonstrate a reasonable expectation, at the time of a fee arrangement, that a government agency will provide substantive consideration of the subject matter with respect to the member’s client. Such an expectation is not reasonable if the member prepares a client’s original tax returns as outlined in paragraph .02.

Examples of When a Contingent Fee Is Permitted

- .04 The following are examples of circumstances in which a contingent fee is permitted under the “Contingent Fee Rule:”
- a. Representing a client in connection with a revenue agent’s examination of the client’s federal or state income tax return
 - b. Filing an amended federal or state income tax return claiming a tax refund based on a tax issue that is the subject of a test case involving a different taxpayer or with respect to which the taxing authority is developing a position
 - c. Filing an amended federal or state income tax return (or refund claim) claiming a tax refund in an amount greater than the threshold for review by the Joint Committee on Taxation or state taxing authority
 - d. Requesting a refund of either overpayments of interest or penalties charged to a client’s account or tax deposits that a federal or state taxing authority improperly accounted for in circumstances in which the taxing authority has established procedures for the substantive review of such refund requests
 - e. Requesting, by means of a protest or similar document, the state or local taxing authority’s consideration of a reduction in a property’s assessed value under an

established taxing authority's review process for hearing all taxpayer arguments relating to assessed value

- f. Representing a client in connection with obtaining a private letter ruling or influencing the drafting of a regulation or statute

Example of When a Contingent Fee Is Not Permitted

- .05 A contingent fee is not permitted if a member prepared a client's amended federal or state income tax return claiming a refund of taxes because a valid deduction was inadvertently omitted from the originally filed return. [Prior reference: paragraph .02 of ET section 302]

1.510.020 Receipt of Contingent Fee

- .01 A contingent fee is considered to be received when the member has completed the related services and the fee is determined. [Prior reference: paragraphs .033–.034 of ET section 391]

1.510.030 Services Performed by a Member's Spouse For a Contingent Fee

- .01 A member's spouse may provide services for a contingent fee to a client for whom the member performs a service listed in paragraph .01a of the "Contingent Fees Rule" without causing the member to be in violation of the "Contingent Fees Rule" if both
 - a. the activities of the member's spouse are separate from the member's practice and
 - b. the member is not significantly involved in the spouse's activities.
- .02 In all such situations, the members should consider the "Conflicts of Interest" interpretation of the "Integrity and Objectivity Rule" (AICPA, *Professional Standards*, ET sec. 1.110.010) to determine the appropriate action. [Prior reference: paragraphs .037–.038 of ET section 391]

1.510.040 Contingent Fee Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client

- .01 A member or member's firm may provide investment advisory services for a contingent fee to
 - a. owners, officers, or employees of a client for whom the member performs a service listed in paragraph .01a of the "Contingent Fees Rule."
 - b. a nonattest client employee benefit plan that is sponsored by a client for whom the member performs a service listed in paragraph .01a of the "Contingent Fees Rule."
- .02 The member should also consider the "Conflicts of Interest" interpretation and the "Confidential Client Information Rule" (AICPA, *Professional Standards*, ET sec.

1.700.001) to determine the appropriate action(s). [Prior reference: paragraphs .049–.050 of ET section 391]

1.510.050 Investment Advisory Services

- .01** A member or member's firm may provide investment advisory services for a fee based on a percentage of the investment portfolio to a client for whom the member performs a service listed in paragraph .01a of the "Contingent Fees Rule" without violating that rule if all of the following safeguards are met:
- a. The fee is determined based on a specified percentage of the client's investment portfolio.
 - b. The dollar amount of the portfolio on which the fee is based is determined at the beginning of each quarter (or longer period of time as may be agreed upon) and is adjusted only for the client's additions or withdrawals during the period.
 - c. The fee arrangement is not renewed with the client more frequently than on a quarterly basis. [Prior reference: paragraphs .047–.048 of ET section 391]
- .02** When performing such services, the member should also consider the "Independence Rule," especially the interpretations of the "Nonattest Services" subtopic under the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.295).

1.520 Commissions and Referral Fees

1.520.001 Commissions and Referral Fees Rule

- .01** *Prohibited commissions.* A member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the member or member's firm also performs for that client
- a. an audit or review of a financial statement; or
 - b. a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or
 - c. an examination of prospective financial information.
- .02** This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.
- .03** *Disclosure of permitted commissions.* A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

- .04** *Referral fees.* Any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client. [Prior reference: paragraph .01 of ET section 503]

A nonauthoritative answer to an FAQ regarding disclosure of a commission is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf.

1.520.005 Application of the Conceptual Framework for Members in Public Practice

- .01** In the absence of an interpretation of the “Commissions and Referral Fees Rule” that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”
- .02** A member would be considered in violation of the “Commissions and Referral Fees Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.520.020 Receipt of Commission

- .01** A commission is considered to be received when the performance of the related services is complete and the fee has been determined. For example, if in one year a member sells a life insurance policy to a client, and the member's commission payments are determined to be a fixed percentage of future years' renewal premiums, the commission is deemed to be received in the year that the policy is sold. [Prior reference: paragraphs .367–.368 of ET section 591]

1.520.030 Services Performed by a Member's Spouse For a Commission

- .01** A member's spouse may receive a commission for referring products or services to or from a client for whom the member performs a service listed in paragraph .01 of the “Commissions and Referral Fees Rule” without causing the member to be in violation of the “Commissions and Referral Fees Rule” if both
- a. the activities of the member's spouse are separate from the member's practice and
 - b. the member is not significantly involved in the spouse's activities.
- .02** In such situations, members should consider the “Conflicts of Interest” interpretation of the “Integrity and Objectivity Rule” to determine the appropriate action. [Prior reference: paragraphs .373–.374 of ET section 591]

1.520.040 Referral of Products of Others

- .01 Paragraph .05 of the “[Application of the AICPA Code](#)” section of the preface (AICPA, *Professional Standards*, ET sec. 0.200.020) provides that a *member* shall not permit others to perform acts on the *member’s* behalf that, if carried out by the *member*, would place the *member* in violation of the rules. Therefore, the *member* would be held responsible for the actions of third parties, such as distributors or agents, that act on the *member’s* behalf.
- .02 For example, if the *member* or *member’s firm* performs for a *client* a service listed in paragraph .01 of the “[Commissions and Referral Fees Rule](#),” the *member* may not recommend or refer to that *client* any product or services for a commission that will be paid through a distributor or an agent or receive a commission for the recommendation or referral. This prohibition applies during the period in which the *member* is engaged to perform any of the services listed in paragraph .01 of the rule and during the period covered by any historical *financial statements* in such services.
- .03 In addition, if a *member* refers a third party’s product or service to a *client* for whom the *member* does not perform a service listed in paragraph .01 of the “[Commissions and Referral Fees Rule](#)” through a distributor or an agent and receives a commission from the third party, the *member* would be in violation of the “[Commissions and Referral Fees Rule](#)” unless the commission is disclosed to the *client*, as discussed in paragraph .03 of the “[Commissions and Referral Fees Rule](#).” However, any subsequent performance of a service listed in paragraph .01 during a period in which the commission was received would be considered a violation of the “[Commissions and Referral Fees Rule](#).” [Prior reference: paragraphs .375–.376 of ET section 591]

1.520.050 Commission Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client

- .01 A *member* or *member’s firm* may receive a commission for referring a nonclient or nonattest *client’s* products or services to the following:
- a. Owners, officers, or employees of a *client* for whom the *member* performs a service listed in paragraph .01 of the “[Commissions and Referral Fees Rule](#)”
 - b. A nonattest *client* employee benefit plan that is sponsored by a *client* for whom the *member* performs a service listed in paragraph .01 of the “[Commissions and Referral Fees Rule](#)”
- .02 In such instances, the *member* should disclose the commission to the *client’s* owners, officers, or employees or the employee benefit plan. The *member’s* failure to disclose the commission would be in violation of the “[Commissions and Referral Fees Rule](#).”
- .03 When making the disclosure, *members* should also consider the applicability of the “[Conflicts of Interest](#)” *interpretation* of the “Integrity and Objectivity Rule” and the *member’s* professional responsibilities under the “Confidential Client Information Rule” to determine the appropriate action(s). [Prior reference: paragraphs .383–.384 of ET section 591]

1.520.060 Sale of Products to Clients

- .01** If a member purchases a product, taking title to the product and assuming all the associated risks of ownership, any profit the member receives on reselling it to a client would not constitute a commission. [Prior reference: paragraphs .369–.370 of ET section 591]

1.520.070 Billing for a Subcontractor’s Services

- .01** If, in providing professional services to a client, a member subcontracts the services of another person or entity, any mark-up of the cost of the subcontracted services would not constitute a commission.
- .02** Refer to the “Use of a Third-Party Service Provider” interpretation of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.150.040); the “Use of a Third-Party Service Provider” interpretation of the “General Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.300.040); and the “Disclosing Information to a Third-Party Service Provider” interpretation of the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.040) for additional guidance. [Prior reference: paragraphs .371–.372 of ET section 591. Substantive change to prior guidance proposed.]

1.600 Advertising and Other Forms of Solicitation

1.600.001 Advertising and Other Forms of Solicitation Rule

- .01 A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by the use of coercion, over-reaching, or harassing conduct is prohibited. [Prior reference: paragraph .01 of ET section 502]

1.600.005 Application of the Conceptual Framework for Members in Public Practice

- .01 In the absence of an interpretation of the “Advertising and Other Forms of Solicitation Rule” (AICPA, *Professional Standards*, ET sec. 1.600.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”
- .02 A member will be considered in violation of the “Advertising and Other Forms of Solicitation Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.600.010 False, Misleading, or Deceptive Acts in Advertising or Solicitations

- .01 A member would be in violation of the “Advertising and Other Forms of Solicitation Rule” if the member’s promotional efforts are false, misleading, or deceptive. If a member is asked to perform professional services for a client or customer of a third party, the member should determine that the third party’s promotional efforts comply with the “Advertising and Other Forms of Solicitation Rule”. Such action is required because the member will receive the benefits of such efforts by third parties, and members must not do through others what they are prohibited from doing themselves. [Prior reference: paragraph .06 of ET section 502]
- .02 Promotional efforts would be considered false, misleading, or deceptive if they
- a. create false or unjustified expectations of favorable results.
 - b. imply the ability to influence any court, tribunal, regulatory agency, or similar body or official.
 - c. contain a representation that the member will perform specific professional services in current or future periods for a stated fee, estimated fee, or fee range when it was likely at the time of the representation that such fees would be substantially increased and the member failed to advise the prospective client of that likelihood.
 - d. contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived. [Prior reference: paragraph .03 of ET section 502]

1.600.030 Use of AICPA-Awarded Designation

- .01** A member who holds an AICPA-awarded designation, such as the Personal Financial Specialist (PFS) designation, may use the designation after the member's name.
- .02** A member's firm may use an AICPA-awarded designation, such as the PFS designation, on firm letterhead and in marketing materials if all the firm's partners hold the AICPA-awarded designation. [Prior reference: paragraphs .365–.366 of ET section 591. Substantive change to prior guidance proposed.]

1.600.100 Use of the CPA Credential

- .01** A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA credential. A member who fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of the “Advertising and Other Forms of Solicitation Rule.” [Prior reference .07 section 502.]

1.700 Confidential Information

1.700.001 Confidential Client Information Rule

- .01 A member in public practice shall not disclose any confidential client information without the specific consent of the client.
- .02 This rule shall not be construed (1) to relieve a member of his or her professional obligations of the Compliance With Standards rule (AICPA, *Professional Standards*, ET 1.310.001) or the Accounting Principles rule (AICPA, *Professional Standards*, ET 1.320.001), (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member's compliance with applicable laws and government regulations, (3) to prohibit review of a member's professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy. Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above. [Prior reference: paragraph .01 of ET section 301]

1.700.005 Application of the Conceptual Framework for Members in Public Practice

- .01 In the absence of an interpretation of the “Confidential Client Information Rule” (AICPA, *Professional Standards*, ET sec. 1.700.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”
- .02 A member will be considered in violation of the “Confidential Client Information Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.700.010 Client Competitors

- .01 When a member provides professional services to clients that are competitors, threats to compliance with the “Confidential Client Information Rule” may exist because the member may have access to confidential client information, such as sales, purchases, and gross profit percentages of the respective competitors.
- .02 To reduce the threat of disclosing confidential client information to a competitor, the member should emphasize to all relevant parties, including employees of the firm, that the “Confidential Client Information Rule” prohibits members from revealing to others

any confidential client information obtained in their professional capacity. [Prior reference: paragraphs .011–.012 of ET section 391]

1.700.020 Disclosing Information From Previous Engagements

- .01** When a member evaluates whether to accept a new client engagement, the member should consider whether knowledge and experience that the member or member's firm will share while providing the professional services to the prospective client would be confidential client information. If such information would be confidential client information, and the circumstances are such that the prospective client would be able to identify the client or clients that are the source of the information, the engagement should not be accepted unless the member obtains the original client's specific consent to disclose the information. [Prior reference: paragraphs .029–.030 of ET section 391]
- .02** When a member withdraws from an engagement due to, for example, discovery of irregularities in a client's tax return, if contacted by the successor, the member should suggest that the successor ask the client to permit the member to discuss all matters freely with the successor. The successor is then on notice of some conflict.
- .03** The “Confidential Client Information Rule” is not intended to help an unscrupulous client cover up illegal acts or otherwise hide information by changing CPAs. Due to the possibility of legal implications in such matters, the member should seek legal advice on the member's status and obligations in the matter. [Prior reference: paragraphs .005–.006 of ET section 391]

1.700.030 Disclosing Information to Persons or Entities Associated With Clients

- .01** When a member is engaged to prepare a married couple’s joint tax return, both spouses are considered to be the member's client, even if the member deals exclusively with one spouse.
- .02** Accordingly, if the married couple is undergoing a divorce and one spouse directs the member to withhold joint tax information from the other spouse, the member may provide the information to both spouses, in compliance with the “Confidential Client Information Rule,” because both are the member's client. The member should consider reviewing the legal implications of such disclosure with an attorney. [Prior reference: paragraphs .031–.032 of ET section 391]
- .03** If a member provides professional services to a company’s executives at the request of the company, the member's disclosure of confidential client information to the company without the consent of the applicable executives would be a violation of the “Confidential Client Information Rule,” even if the company is not otherwise a client. [Prior reference: paragraphs .041–.042 of ET section 391]

1.700.040 Disclosing Information to a Third-Party Service Provider

- .01** When a *member* uses a *third-party service provider* to assist the *member* in providing *professional services*, threats to compliance with the “Confidential Client Information Rule” may exist.
- .02** *Clients* may not expect the *member* to use a *third-party service provider* to assist the *member* in providing the *professional services*. Therefore, before disclosing *confidential client information* to a *third-party service provider*, the *member* should do one of the following:
- a. Enter into a contractual agreement with the *third-party service provider* to maintain the confidentiality of the information and provide reasonable assurance that the *third-party service provider* has appropriate procedures in place to prevent the unauthorized release of confidential information to others. The nature and extent of procedures necessary to obtain reasonable assurance depends on the facts and circumstances, including the extent of publicly available information on the *third-party service provider's* controls and procedures to *safeguard confidential client information*.
 - b. Obtain specific consent from the *client* before disclosing *confidential client information* to the *third-party service provider*.
- .03** Refer to the “[Use of a Third-Party Service Provider” interpretation](#) of the “Integrity and Objectivity Rule” and the “[Use of a Third-Party Service Provider” interpretation](#) of the “General Standards Rule” for additional guidance. [Prior reference: paragraphs .001–.002 of ET section 391]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsOutsourcing.pdf.

In addition, nonauthoritative sample client disclosure language that could be used to fulfill the requirement discussed in this interpretation is also available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Sample_Disclosure_Notification.pdf.

1.700.050 Disclosing Client Information in Connection With a Review of the Member's Practice

- .01** For purposes of the “Confidential Client Information Rule,” a review of a member's professional practice includes a review performed in conjunction with a prospective purchase, sale, or merger of all or part of a member's practice. Such reviews may threaten a member's compliance with the “Confidential Client Information Rule.” To reduce the threat to an acceptable level, a member must take appropriate precautions (for example, through a written confidentiality agreement with the prospective purchaser) to help ensure that the prospective purchaser does not disclose any confidential client information obtained in the course of the review.
- .02** Members who perform such reviews shall not use to their advantage or disclose any confidential client information that comes to their attention during the review. [Prior reference: paragraph .04 of ET section 301]

1.700.060 Disclosure of Client Information to Third Parties

- .01** When a member receives a request from a third party (for example, a trade association, member of academia, or surveying or benchmarking organization) to disclose client information or intends to use such information for the member's own purposes (for example, publication of benchmarking data or studies) in a manner that may result in the client's information being disclosed to others without the client being specifically identified, threats to compliance with the “Confidential Client Information Rule” may exist.
- .02** If the information is considered to be confidential client information, the member would be in violation of the “Confidential Client Information Rule” if the member discloses or uses the information unless the member has the client's specific consent, preferably in writing, for the disclosure or use of such information. The consent should specify the nature of the information that may be disclosed, the type of third party to whom it may be disclosed, and its intended use.
- .03** If the information is not considered to be confidential client information, the disclosure or use of the information is not subject to the “Confidential Client Information Rule.” However, the member should be cautious in the disclosure or use of the information so as not to disclose client information that may go beyond what is available to the public or that the client has agreed may be disclosed.
- .04** A member is not prohibited from marketing his or her services or advising a third party, such as a current or prospective client, of information based on his or her expertise or knowledge obtained from prior experiences with clients (for example, the nature of services provided to other clients or common practices within a client's industry). However, if the information may be identifiable to one or more clients, specific consent, preferably in writing, would be required from such client(s). Prior to disclosing confidential client information to a third party, the member should consider whether a

contractual agreement with the third party to maintain the confidentiality or limit the use of the information is necessary.

- .05 In addition, the *member* should consider whether federal, state, or local statutes, rules, or regulations concerning the confidentiality of *client* information may be more restrictive than the requirements contained in this interpretation.
- .06 Refer to the “[Use of a Third-Party Service Provider](#)” interpretation of the “General Standards Rule” for additional guidance. [Prior reference: paragraphs .003–.004 of ET section 391]

A nonauthoritative table that provides examples of client information that is available to the public, client information not available to the public, and other information in the member’s possession is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Categories-of-Information.pdf.

1.700.070 Disclosing Client Information During Litigation

- .01 The “Confidential Client Information Rule” is not intended to prohibit a *member* from disclosing information necessary to initiate, pursue, or defend the *member* in an actual or a threatened lawsuit or alternative dispute resolution proceeding. Accordingly, releasing *confidential client information* to the *member’s* liability insurance carrier solely to assist in the defense against an actual or a potential claim against the *member* would not violate the “Confidential Client Information Rule.” [Prior reference: paragraphs .039–.040 and .045–.046 of ET section 391]

1.700.080 Disclosing Client Information in Director Positions

- .01 When a *member* serves as a director of an organization, such as a bank or an insurance company, the *member’s* fiduciary responsibilities to the organization may create threats to compliance with the “[Integrity and Objectivity Rule](#)” and the “Confidential Client Information Rule.” For example, the *member’s* fiduciary duty to the organization may conflict with the *member’s* obligations pursuant to the “Confidential Client Information Rule” (for example, failure to disclose information may constitute a breach of the director’s fiduciary responsibilities) when the *member’s clients* are customers of the organization.
- .02 A *member’s* general knowledge and experience may be very helpful to an organization in formulating a policy and making business decisions. Nevertheless, if the *member’s clients* are likely to engage in significant transactions with the organization, it would be more appropriate for the *member* to serve as a consultant to the board. Under such an arrangement, the *member* could limit activities to those that do not threaten the *member’s* compliance with the rules. If, however, the *member* serves as a board member of the organization, the *member* should evaluate the significance of any threats and apply

safeguards, when necessary, to eliminate or reduce the threats to an acceptable level. [Prior reference: paragraphs .035–.036 of ET section 391. Substantive change to prior guidance proposed.]

- .03 See the “Director Positions” interpretation of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 1.110.020).

1.700.090 Disclosing Client Names

- .01 The member’s disclosure of a client’s name would not violate the “Confidential Client Information Rule” if disclosure of the client’s name does not constitute the release of confidential client information. For example, if a member’s practice is limited to bankruptcy matters, disclosure of the client’s name could suggest that the client may be experiencing financial difficulties, which may be confidential client information. [Prior reference: paragraphs .013–.014 of ET section 391]

1.700.100 Disclosing Confidential Client Information as a Result of a Subpoena or Summons

- .01 The member’s disclosure of confidential client information in compliance with a validly issued and enforceable subpoena or summons would not violate the “Confidential Client Information Rule.”
- .02 When complying with such subpoena or summons, the member is not required to notify the client that its records have been subpoenaed or that a summons related to the client’s records has been issued. The member may also wish to consult with legal counsel to determine the validity and enforceability of the subpoena or summons and the specific client information required to be provided. The member may also wish to consult with his or her state board of accountancy. [No prior reference: New content from informal policy position; not substantive because it repeats what is in the rule.]

1.800 Form of Organization and Name

1.800.001 Form of Organization and Name Rule

- .01 A member may practice public accounting only in a form of organization permitted by law or regulation whose characteristics conform to resolutions of Council.
- .02 A member shall not practice public accounting under a firm name that is misleading.
- .03 Names of one or more past owners may be included in the firm name of a successor organization.
- .04 A firm may not designate itself as “Members of the American Institute of Certified Public Accountants” unless all its CPA owners are members of the AICPA.
- .05 See Appendix B, “Council Resolution Concerning Form of Organization and Name” [Prior reference: paragraph .01 of ET section 505]

1.800.005 Application of the Conceptual Framework for Members in Public Practice

- .01 In the absence of an interpretation of the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.800.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice.”
- .02 A member would be considered in violation of the “Form of Organization and Name Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

1.810 Form of Organization and Related Practice Issues

1.810.010 Ownership of a Separate Business

- .01 A member may own an interest in a separate business that performs for clients accounting, tax, personal financial planning, or litigation support services or other services for which standards are promulgated by bodies designated by Council.
- .02 If the member, either individually or collectively with the member's firm or others in the firm, controls the separate business, the separate business, its owners (including the member), and its professional employees must comply with the AICPA Code. For example, if one or more members individually or collectively control the separate business, the member(s) and others associated with the separate business are subject to the “Commissions and Referral Fees Rule” and its interpretations.
- .03 With respect to an attest client, the “Independence Rule” and its interpretations would apply to the activities of the separate business, its owners, and its professional employees.

- .04 When the [member](#), individually or collectively with the [member's firm](#) or others in the [firm](#), does not [control](#) the separate business, the provisions of the AICPA Code would apply to the [member's](#) actions but not the separate business, its other (nonmember) owners, and its professional employees. For example, the separate business could enter into a contingent fee arrangement with the [member's attest client](#) or accept commissions for the referral of products or services to the [member's attest client](#). [Prior reference: paragraph .03 of ET section 505]
- .05 When the owners of the separate business are non-CPAs, to prevent any misunderstanding or misrepresentation, the CPA [member](#) should advise [clients](#) and other interested parties that the CPA [member](#) is an owner in two separate businesses: one made up of non-CPAs (except for the CPA [member](#)) and another that is a CPA [firm](#). [Prior reference: paragraphs .275–.276 of ET section 591]
- .06 See the “[Network and Network Firms](#)” [interpretation](#) of the “Independence Rule” (AICPA, *Professional Standards*, ET sec. 1.220.010) and the definitions of [networks](#) and [network firms](#) for guidance applicable to these entities. [No Prior reference: not substantive because it is just a cross reference]

1.810.020 Partner Designation

- .01 Only [members](#) of a [firm](#) who are legally [partners](#) should use the designation [partner](#). [Members](#) who are not parties to the [firm's](#) partnership agreement should not hold themselves out in any manner that might lead [clients](#) or the public to believe that they are [partners](#). For example, using the designation nonproprietary partner to describe a high-ranking professional employee would be misleading and in violation of the “[Form of Organization and Name Rule](#),” even if the professional employee was a [partner](#) in one of the predecessor [firms](#) that merged into the [firm](#). [Prior reference: paragraphs .273–.274 of ET section 591]

1.810.030 A Member's Responsibility for Nonmember Practitioners

- .01 A [member](#) who becomes an employee of a [firm](#) made up of one or more nonmember practitioners must still comply with the AICPA Code. If the [member](#) becomes an owner in the [firm](#), the [member](#) will be responsible for compliance with the AICPA Code by all the [firm's](#) professional employees, including the nonmember practitioners.
- .02 Similarly, if a [member](#) forms a partnership with a nonmember, the [member](#) is ethically responsible for all the activities of the partnership. If the nonmember [partner](#) violates the AICPA Code, the [member](#) would also be held accountable for that [partner's](#) actions.
- .03 See paragraph .05 of the “[Application of the AICPA Code](#)” section of the preface (ET section 0.200.020) and [appendix B](#). [Prior reference: paragraphs .005–.006 and .281–.282 of ET section 591]

1.810.040 Attest Engagement Performed With a Former Partner

- .01 Two former partners may continue to jointly perform an attest engagement even if one of them is not a CPA. However, to be clear that a partnership no longer exists and to ensure to the attest client and others that both individuals performed the attest engagement, they should present their report on plain paper that is signed in the following manner:

John Doe, Certified Public Accountant

Richard Roe, Accountant

[Prior reference: paragraphs .271–.272 of ET section 591. Substantive change to prior guidance proposed.]

1.810.050 Alternative Practice Structures

- .01 The “Form of Organization and Name Rule” states, “A member may practice public accounting only in a form of organization permitted by law or regulation whose characteristics conform to resolutions of Council.” The Council resolution (appendix B) requires, among other things, that CPAs own a majority of the financial interests in a firm engaged to provide attest services (as defined therein) to the public. This interpretation explains the application of this rule to APS in which (a) the majority of the financial interests in the attest firm is owned by CPAs and (b) all or substantially all of the revenues are paid to another entity in return for services and the lease of employees, equipment, and office space.
- .02 To protect the public interest, the overriding focus of the resolution is that CPAs remain responsible, financially and otherwise, for a firm’s attest work. In addition to the provisions of the resolution, other requirements of the AICPA Code and bylaws ensure that responsibility for
- a. compliance with all aspects of applicable state law or regulation,
 - b. enrollment in an AICPA-approved practice monitoring program,
 - c. compliance with the AICPA “Independence Rule,” and
 - d. compliance with applicable standards promulgated by Council-designated bodies (“Compliance With Standards Rule” [AICPA, *Professional Standards*, ET sec. 1.310.001]) and all other provisions of the AICPA Code, including ET section 0.200.
- .03 Given all the previously mentioned safeguards that protect the public interest, if the CPAs who own the attest firm remain financially responsible, under applicable law or regulation, for the firm’s attest work, the member is considered to be in compliance with the financial interests provision of the resolution. [Prior reference: paragraph .04 of ET section 505]

1.820 Firm Name

1.820.010 Use of a Retired Partner's Name

- .01 The “[Form of Organization and Name Rule](#)” permits the use of the name(s) of former *partner(s)* in a *firm's* name. For example, if two *firms* merge, the newly formed *firm* may use in its *firm* name the name of retired or other *partners* in either or both of the merged *firms* without violating the “[Form of Organization and Name Rule](#).” [Prior reference: paragraphs .289–.290 of ET section 591]

1.820.020 A Practice With Non-CPA Partners

- .01 A CPA *member* who is in partnership with non-CPAs may sign reports in the *firm's* name and also affix the CPA *member's* signature, with the designation “Certified Public Accountant,” if it is clear that the partnership itself is not being held out as entirely comprising CPAs. [Prior reference: paragraphs .379–.380 of ET section 591]

1.820.030 Misleading Firm Names

- .01 The “[Form of Organization and Name Rule](#)” prohibits a *member* from practicing public accounting under a *firm* name that is misleading. If the *firm* name contains any representation that would be likely to cause a reasonable person to misunderstand, or be confused about, the legal form of the *firm* or who the owners or members of the *firm* are, such as a reference to a type of organization or an abbreviation thereof that does not accurately reflect the form under which the *firm* is organized, the firm name would be misleading and the *member* would be in violation of the “[Form of Organization and Name Rule](#).”
- .02 In addition, the *member* should consider the rules and regulations of his or her state board(s) of accountancy concerning misleading *firm* names that may be more restrictive than the requirements contained in this interpretation. [Prior reference: paragraph .05 of ET section 505]

1.820.040 Use of a Common Brand Name in Firm Name

- .01 *Firms* within a *network* sometimes share the use of a common brand or share common initials as part of the *firm* name. The sharing of a common brand name or common initials of a *network* as part of the *member's firm* name would not be considered misleading, provided the *firm* is a *network firm*.
- .02 The sharing of a common brand name or common initials of a *network* as the entire name of the *member's firm* would not be considered misleading, provided the *firm* is a *network firm* and shares one or more of the following characteristics with other *firms* in the *network*:
- Common *control* among the firms through ownership, management, or other means
 - Profits or costs, excluding costs of operating the *network*; costs of developing audit methodologies, manuals, and training courses; and other costs that are immaterial to the *firm*

- c. Common business strategy that involves ongoing collaboration amongst the firms whereby the firms are responsible for implementing the network's strategy and are held accountable for performance pursuant to that strategy
 - d. Significant part of professional resources
 - e. Common quality control policies and procedures that firms are required to implement and that are monitored by the network
- .03** Refer to the "Network and Network Firms" interpretation of the "Independence Rule" for additional guidance. [Prior reference: paragraph .06 of ET section 505]

Part 2: Members in Business

2.000 Introduction

- .01 Part 2 of the AICPA Code of Professional Conduct (AICPA Code) applies to [members in business](#). Accordingly, when the term [member](#) is used in part 2 of the AICPA Code, the requirements apply only to [members in business](#). When a [member in business](#) is also a [member](#) in [public practice](#) (for example, a [member](#) has a part-time tax practice), the [member](#) should also consult part 1 of the AICPA Code, which applies to [members](#) in [public practice](#). [No prior reference: new content]

2.000.010 Conceptual Framework for Members in Business

Introduction

- .01 [Members](#) may encounter various relationships or circumstances that create threats to the [member's](#) compliance with the rules. The rules and [interpretations](#) seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an [interpretation](#) that addresses a particular relationship or circumstance, a [member](#) should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is an unacceptable threat to the [member's](#) compliance with the rules. When making that evaluation, the [member](#) should apply the conceptual framework approach as outlined in this interpretation.
- .02 There are circumstances in which the AICPA Code specifies that no [safeguards](#) can reduce a threat to an acceptable level. In such circumstances, a [member](#) may not use the conceptual framework to overcome a prohibition or requirement specifically contained in the AICPA Code. For example, the AICPA Code specifies that a [member](#) may not subordinate the [member's](#) professional judgment to others without violating the “[Integrity and Objectivity Rule](#)” (AICPA, *Professional Standards*, ET sec. 2.100.001).

Definitions Used in Applying the Conceptual Framework

- .03 **Acceptable level.** A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a [member's](#) compliance with the rules is not compromised.
- .04 **Employing organization.** Any entity that employs the [member](#) or engages the [member](#) on a contractual or volunteer basis in an executive, a staff, a governance, an advisory, or an administrative capacity to provide [professional services](#).
- .05 **Threats.** Relationships or circumstances that could compromise a [member's](#) compliance with the rules.

Conceptual Framework Approach

- .06 Under the conceptual framework approach, members should identify threats to compliance with the rules and evaluate the significance of those threats. Members should evaluate identified threats both individually and in the aggregate because threats can have a cumulative effect on a member's compliance with the rules. Members should perform three main steps in applying the conceptual framework approach:
- a. *Identify threats.* The relationships or circumstances that a member encounters in various engagements and work assignments or positions will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule or an interpretation, under this approach, the member should determine whether the relationship or circumstance creates one or more threats, such as those identified in paragraphs .09–.14 that follow. The existence of a threat does not mean that the member is in violation of the rules; however, the member should evaluate the significance of the threat.
 - b. *Evaluate the significance of a threat.* In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules. Members should consider both qualitative and quantitative factors when evaluating the significance of a threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. If the member evaluates the threat and concludes that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat does not compromise a member's compliance with the rules, the threat is at an acceptable level and the member is not required to evaluate the threat any further under this conceptual framework approach.
 - c. *Identify and apply safeguards.* If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the effectiveness of safeguards will vary depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats, but in some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member's compliance with the rules, and the member should determine whether to decline or discontinue the professional services or resign from the employing organization.

Threats

- .07** Many threats fall into one or more of the following six broad categories: adverse interest, advocacy, familiarity, self-interest, self-review, and undue influence.
- .08** Examples of threats associated with a specific relationship or circumstance are identified in the *interpretations* of the AICPA Code. Paragraphs .09–.14 define and provide examples, which are not all inclusive, of each of these threat categories.
- .09** *Adverse interest threat.* The threat that a *member* will not act with objectivity because the *member's* interests are opposed to the interests of the employing organization. Examples of adverse interest threats include the following:
- A *member* has charged, or expressed an intention to charge, the employing organization with violations of law.
 - A *member* or the *member's immediate family* or *close relative* has a financial or an other relationship with a vendor, customer, competitor, or potential acquisition of the employing organization.
 - A *member* has sued or expressed an intention to sue the employing organization or its officers, directors, or employees.
- .10** *Advocacy threat.* The threat that a *member* will promote an employing organization's interests or position to the point that his or her objectivity is compromised. Examples of advocacy threats include the following:
- Obtaining favorable financing or additional capital is dependent upon the information that the *member* includes in, or excludes from, a prospectus, an offering, a business plan, a financing application, or a regulatory filing.
 - The *member* gives or fails to give information that the *member* knows will unduly influence the conclusions reached by an external service provider or other third party.
- .11** *Familiarity threat.* The threat that, due to a long or close relationship with a person or an employing organization, a *member* will become too sympathetic to their interests or too accepting of the person's work or employing organization's product or service. Examples of familiarity threats include the following:
- A *member* uses an *immediate family's* or a *close relative's* company as a supplier to the employing organization.
 - A *member* may accept an individual's work product with little or no review because the individual has been producing an acceptable work product for an extended period of time.
 - A *member's immediate family* or *close relative* is employed as a *member's* subordinate.

- d. A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization.
- .12** *Self-interest threat.* The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organization or persons associated with the employing organization. Examples of self-interest threats include the following:
- a. A member's immediate family or close relative has a financial interest in the employing organization.
 - b. A member holds a financial interest (for example, shares or share options) in the employing organization, and the value of that financial interest is directly affected by the member's decisions.
 - c. A member is eligible for a profit or other performance-related bonus, and the value of that bonus is directly affected by the member's decisions.
- .13** *Self-review threat.* The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member, or an individual in the member's firm, and that the member will rely on that service in forming a judgment as part of another service. Examples of self-review threats include the following:
- a. When performing an internal audit procedure, an internal auditor accepts work that he or she previously performed in a different position.
 - b. The member accepts the work previously performed by the member, alone or with others, that will be the basis for providing another professional service.
- .14** *Undue influence threat.* The threat that a member will subordinate judgment to that of an individual associated with the employer or any relevant third party due to that individual's position, reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. Examples of undue influence threats include the following:
- a. A member is pressured to become associated with misleading information.
 - b. A member is pressured to deviate from a company policy.
 - c. A member is pressured to change a conclusion regarding an accounting or a tax position.
 - d. A member is pressured to hire an unqualified individual.

Safeguards

- .15** Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.

- .16** Safeguards that may eliminate a threat or reduce it to an acceptable level fall into two broad categories:
- a. Safeguards created by the profession, legislation, or regulation
 - b. Safeguards implemented by the employing organization
- .17** The effectiveness of a safeguard depends on many factors, including those listed here:
- a. The facts and circumstances specific to a particular situation
 - b. The proper identification of threats
 - c. Whether the safeguard is suitably designed to meet its objectives
 - d. The party(ies) who will be subject to the safeguard
 - e. How the safeguard is applied
 - f. The consistency with which the safeguard is applied
 - g. Who applies the safeguard
 - h. How the safeguard interacts with a safeguard from another category
 - i. Whether the employing organization is a public interest entity
- .18** Examples of safeguards within each category are presented in the following paragraphs. Because these are only examples and are not intended to be all inclusive, it is possible that threats may be sufficiently mitigated through the application of other safeguards not specifically identified herein.
- .19** The following are examples of safeguards created by the profession, legislation, or regulation:
- a. Education and training requirements on ethics and professional responsibilities
 - b. Continuing education requirements on ethics
 - c. Professional standards and the threat of discipline
 - d. Legislation establishing prohibitions and requirements for entities and employees
 - e. Competency and experience requirements for professional licensure
 - f. Professional resources, such as hotlines, for consultation on ethical issues
- .20** Examples of safeguards implemented by the employing organization are as follows:
- a. A tone at the top that emphasizes a commitment to fair financial reporting and compliance with applicable laws, regulations, and corporate governance policies, including the availability of third-party resources for consultation on significant matters of professional judgment
 - b. Policies and procedures addressing ethical conduct and compliance with laws and regulations
 - c. Audit committee charter, including independent audit committee members

- d. Internal policies and procedures requiring disclosure of identified interests or relationships among the employing organization; its directors or officers; and vendors, suppliers, or customers
- e. Internal policies and procedures with respect to purchasing controls
- f. Internal policies and procedures with respect to customer acceptance or credit limits
- g. Dissemination of corporate ethical compliance policies and procedures, including whistle-blower hotlines, the reporting structure, dispute resolution, or other similar policies, to promote compliance with laws, regulations, and other professional requirements
- h. Human resource policies and procedures to safeguard against discrimination or harassment, such as those concerning a worker's religion, sexual orientation, sex, or disability
- i. Human resource policies and procedures that stress the hiring and retention of technically competent employees
- j. Policies and procedures to implement and monitor ethical policies
- k. Assigning sufficient staff with the necessary competencies to projects and other tasks
- l. Policies segregating personal assets from company assets
- m. Staff training on applicable laws and regulations
- n. Internal policies and procedures are monitored on a regular basis
- o. Internal auditor does not report to the financial reporting group
- p. Internal auditor does not monitor areas where the internal auditor has operational or functional responsibilities
- q. Policies for promotion, rewards, and enforcement of a culture of high ethics and integrity [No prior reference: new content]

Effective Date

.21 The “Conceptual Framework for Members in Business” (AICPA, *Professional Standards*, ET sec. 2.000.010) is effective December 15, 2015.

2.000.020 Ethical Conflicts

.01 An ethical conflict arises when a member encounters obstacles to following an appropriate course of action due to internal or external pressures or when conflicts exist in applying relevant professional standards or legal standards, or both. For example, a member may have encountered a fraud, but reporting the fraud would be in violation of the member's responsibility to maintain confidentiality of his or her employer's confidential information.

- .02** Once an ethical conflict is encountered, a *member* may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the *member* should consider factors such as the following:
- a. Relevant facts and circumstances, including applicable rules, laws, or regulations
 - b. Ethical issues involved
 - c. Established internal procedures
- .03** The *member* should also be prepared to justify any departures that the *member* believes were appropriate in applying the relevant rules and law. If the *member* was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the *member* may have to address the consequences of any violations.
- .04** Before pursuing a course of action, the *member* should consider consulting with appropriate persons within the organization that employs the *member*.
- .05** If a *member* decides not to consult with appropriate persons within the organization that employs the *member*, and the conflict remains unresolved after pursuing the selected course of action, the *member* should consider consulting with other individuals for help in reaching a resolution or consider obtaining advice from an appropriate professional body or legal counsel. The *member* also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.
- .06** If the ethical conflict remains unresolved, the *member* will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the *member* should consider his or her continuing relationship with the specific assignment or employer. [No prior reference: new content]

2.100 Integrity and Objectivity

2.100.001 Integrity and Objectivity Rule

- .01 In the performance of any *professional service*, a *member* shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. [Prior reference: paragraph .01 of ET section 102]

2.100.005 Application of the Conceptual Framework for Members in Business

- .01 In the absence of an *interpretation* of the “*Integrity and Objectivity Rule*” (AICPA, *Professional Standards*, ET sec. 2.100.001) that addresses a particular relationship or circumstance, a *member* should apply the “*Conceptual Framework for Members in Business*.”
- .02 A *member* would be considered in violation of the “*Integrity and Objectivity Rule*” if the *member* cannot demonstrate that *safeguards* were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

2.110 Conflicts of Interest

2.110.010 Conflicts of Interest

- .01 In performing a *professional service* for an employer, a conflict of interest may occur if a *member* or the *member’s* employer has a relationship with another person, entity, product, or service that, in the *member’s* professional judgment, the employer or other appropriate parties may view as impairing the *member’s* objectivity. In such situations, adverse interest or self-interest threats to the *member’s* compliance with the “*Integrity and Objectivity Rule*” may exist.
- .02 A *member* should evaluate the significance of the threats to determine if they are at an acceptable level. If, after evaluating the threats, the *member* determines that the threats are so significant that no *safeguards* could eliminate or reduce the threats to an acceptable level, therefore impairing the *member’s* objectivity, the *member* should either not perform the *professional service* or terminate one or more of the relationships that are causing the conflict.
- .03 A *member* may perform the *professional service* if he or she determines that the service can be performed with objectivity because the threats are not significant or can be reduced to an acceptable level through the application of *safeguards*. Threats to objectivity would be at an acceptable level and objectivity would not be impaired if the following *safeguards* are met before performing the *professional service*:
- The *member* notifies the employer or other appropriate parties of the relevant facts and circumstances.
 - The *member* obtains consent from such employer or appropriate parties to perform the *professional service*. If consent is refused, the *member* should either

not perform the professional service or terminate one or more of the relationships that are causing the conflict. When making the disclosure, the member should consider the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 2.400.070). [Prior reference: paragraph .03 of ET section 102]

2.120 Gifts and Entertainment

2.120.010 Offering or Accepting Gifts or Entertainment

- .01** In this interpretation, customer or vendor of the member’s employer includes a representative of the customer or vendor.
- .02** When a member offers or accepts gifts or entertainment to or from a customer or vendor of the member’s employer, self-interest, familiarity, or undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” may exist.
- .03** Threats to compliance with the “Integrity and Objectivity Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and the member would be presumed to lack integrity in violation of the “Integrity and Objectivity Rule,” if the member offers or accepts gifts or entertainment to or from a customer or vendor of the member’s employer that the member knows or is reckless in not knowing would violate the employer’s or a customer or a vendor of the employer’s policies or applicable laws and regulations.
- .04** A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. Examples of relevant facts and circumstances are the following:
 - a. The nature of the gift or entertainment
 - b. The occasion giving rise to the gift or entertainment
 - c. The cost or value of the gift or entertainment
 - d. The nature, frequency, and value of other gifts and entertainment offered or accepted
 - e. Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
 - f. Whether other customers or vendors also participated in the entertainment
 - g. The individuals from the customer or vendor and a member’s employer who participated in the entertainment
- .05** Threats to compliance with the “Integrity and Objectivity Rule” would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards, and the member would be considered to lack objectivity in violation of the

“Integrity and Objectivity Rule,” if a member offers or accepts gifts or entertainment to or from a customer or vendor of the member’s employer that is not reasonable in the circumstances. [Prior reference: paragraphs .226–.227 of ET section 191]

A nonauthoritative basis for conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Gifts_Basis_Document.pdf.

2.130 Preparing and Reporting Information

2.130.010 Knowing Misrepresentations in the Preparation of Financial Statements or Records

- .01** Threats to compliance with the “Integrity and Objectivity Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and the member would be considered to have knowingly misrepresented facts in violation of the “Integrity and Objectivity Rule,” if the member
- a. makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records;
 - b. fails to correct an entity’s financial statements or records that are materially false and misleading when the member has the authority to record the entries; or
 - c. signs, or permits or directs another to sign, a document containing materially false and misleading information. [Prior reference: paragraph .02 of ET section 102]

2.130.020 Subordination of Judgment

- .01** The “Integrity and Objectivity Rule” prohibits members from knowingly misrepresenting facts or subordinating their judgment when performing professional services. When a member and his or her supervisor have a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the following safeguards should be met to ensure that any self-interest, familiarity, and undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” are at an acceptable level:
- a. The member should determine whether (i) the entry or failure to record a transaction in the records or (ii) the financial statements’ presentation or nature or omission of disclosure in the financial statements the supervisor proposed represents the use of an acceptable alternative and does not materially misrepresent the facts. If, after appropriate research or consultation, the member concludes that the matter has authoritative support or does not result in a material misrepresentation, or both, the member need do nothing further.
 - b. If the member concludes that the financial statements or records could be materially misstated, the member should make the member’s concerns known to the appropriate higher level(s) of management within the organization. The member should consider documenting the member’s understanding of the facts,

the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.

If, after discussing the member's concerns with the appropriate person(s) in the organization, the member concludes that appropriate action was not taken, the member should consider his or her continuing relationship with the employer. The member also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer's board of directors, owners, or audit committee. In this connection, the member may wish to consult with the member's legal counsel. [Prior reference: paragraph .05 of ET section 102]

2.130.030 Obligation of a Member to His or Her Employer's External Accountant

- .01 The "Integrity and Objectivity Rule" requires a member to maintain objectivity and integrity in the performance of a professional service. When dealing with an employer's external accountant, a member must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts. This would include, for example, responding to specific inquiries for which the employer's external accountant requests written representation. [Prior reference: paragraph .04 of ET section 102]

2.140 Educational Services

2.140.010 Educational Services

- .01 Members who perform educational services, such as teaching full or part time at a university, teaching a continuing professional education course, or engaging in research and scholarship, are performing professional services and, therefore, are subject to the "Integrity and Objectivity Rule." [Prior reference: paragraph .06 of ET section 102]

2.300 General Standards

2.300.001 General Standards Rule

- .01 A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council.
- a. Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
 - b. Due Professional Care. Exercise due professional care in the performance of professional services.
 - c. Planning and Supervision. Adequately plan and supervise the performance of professional services.
 - d. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.
- .02 See Appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards." [Prior reference: paragraph .01 of ET section 201]

2.300.005 Application of the Conceptual Framework for Members in Business

- .01 In the absence of an interpretation of the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 2.300.001) that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business."
- .02 A member would be considered in violation of the "General Standards Rule" if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

2.300.010 Competence

- .01 Competence, in this context, means that the member or member's staff possesses the appropriate technical qualifications to perform professional services and, as required, supervises and evaluates the quality of work performed. Competence encompasses knowledge of the profession's standards, the techniques and technical subject matter involved, and the ability to exercise sound judgment in applying such knowledge in the performance of professional services.
- .02 A member's agreement to perform professional services implies that the member has the necessary competence to complete those services according to professional standards and to apply the member's knowledge and skill with reasonable care and diligence. However, the member does not assume a responsibility for infallibility of knowledge or judgment.

- .03 The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. A normal part of providing professional services involves performing additional research or consulting with others to gain sufficient competence.
- .04 If a member is unable to gain sufficient competence, the member should suggest the involvement of a competent person to perform the needed professional service, either independently or as an associate. [Prior reference: paragraph .02 of ET section 201]

2.300.030 Submission of Financial Statements

- .01 When a member is a stockholder, a partner, a director, an officer, or an employee of an entity and, in this capacity, prepares or submits, or both, the entity's financial statements to third parties, the member should clearly communicate, preferably in writing, the member's relationship to the entity and should not imply that the member is independent of the entity. In addition, if the communication states affirmatively that the financial statements are presented in conformity with the applicable financial reporting framework, the member should comply with the "Accounting Principles Rule" (AICPA, *Professional Standards*, ET sec. 2.320.001).
- .02 Refer to the "Use of CPA Credential" interpretation under the "Acts Discreditable Rule" (AICPA, *Professional Standards*, ET sec. 2.400.100) for additional guidance. [Prior reference: paragraphs .019–.020 of ET section 291]

2.310 Compliance With Standards

2.310.001 Compliance With Standards Rule

- .01 A *member* who performs auditing, review, compilation, management consulting, tax, or other *professional services* shall comply with standards promulgated by bodies designated by *Council*.
- .02 See [Appendix A](#). “*Council* Resolution Designating Bodies to Promulgate Technical Standards.” [Prior reference: paragraph .01 of ET section 202]

2.310.005 Application of the Conceptual Framework for Members in Business

- .01 In the absence of an *interpretation* of the “[Compliance With Standards Rule](#)” (AICPA, *Professional Standards*, ET sec. 2.310.001) that addresses a particular relationship or circumstance, a *member* should apply the “[Conceptual Framework for Members in Business](#).”
- .02 A *member* would be considered in violation of the “[Compliance With Standards Rule](#)” if the *member* cannot demonstrate that *safeguards* were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

2.320 Accounting Principles

2.320.001 Accounting Principles Rule

- .01 A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.
- .02 See Appendix A, “Council Resolution Designating Bodies to Promulgate Technical Standards.” [Prior reference: paragraph .01 of ET section 203]

2.320.005 Application of the Conceptual Framework for Members in Business

- .01 In the absence of an interpretation of the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. 2.320.001) that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business.”
- .02 A member would be considered in violation of the “Accounting Principles Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

2.320.010 Responsibility for Affirming That Financial Statements Are in Conformity With the Applicable Financial Reporting Framework

- .01 A member shall not state affirmatively that an entity’s financial statements or other financial data are presented in conformity with generally accepted accounting principles (GAAP) if such statements or data contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles. Members who affirm that financial statements or other financial data are presented in conformity with GAAP should comply with the “Accounting Principles Rule.” A member’s representation in a letter or other communication that an entity’s financial statements are in conformity with GAAP may be considered an affirmative statement within the meaning of this rule with respect to the member who signed the letter or other communication (for example, the member signed a report to a regulatory authority, a creditor, or an auditor). [Prior reference: paragraph .05 ET section 203]

2.320.020 Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations

- .01 The “[Accounting Principles Rule](#)” authorizes [Council](#) to designate bodies to establish accounting principles. [Council](#) designated the Financial Accounting Standards Board (FASB) as such a body and has resolved that FASB *Accounting Standards Codification*TM (ASC) constitutes accounting principles as contemplated in the rule. [Council](#) also designated the Governmental Accounting Standards Board (GASB), with respect to Statements of Governmental Accounting Standards issued in July 1984 and thereafter, as the body to establish financial accounting principles for state and local governmental entities, pursuant to the “[Accounting Principles Rule](#).” [Council](#) also designated the Federal Accounting Standards Advisory Board (FASAB), with respect to Statements of Federal Accounting Standards adopted and issued in March 1993 and subsequently, as the body to establish accounting principles for federal government entities, pursuant to the “[Accounting Principles Rule](#).” [Council](#) also designated the International Accounting Standards Board (IASB) as an accounting body for purposes of establishing international financial accounting and reporting principles.
- .02 Reference to GAAP in the “[Accounting Principles Rule](#)” means those accounting principles promulgated by bodies designated by [Council](#), which are listed in [appendix A](#). The bodies designed by [Council](#) to promulgate accounting principles are
- a. FASAB,
 - b. FASB,
 - c. GASB, and
 - d. IASB.
- .03 The Professional Ethics Division will look to such codification or statements and any [interpretations](#) thereof issued by FASB, GASB, FASAB, or IASB in determining whether a [member](#) has departed from an accounting principle established in FASB ASC, a Statement of Governmental Accounting Standards, a Statement of Federal Accounting Standards, or International Financial Reporting Standards (IFRS). [Prior reference: paragraph .03 ET section 203]

2.320.030 Departures From Generally Accepted Accounting Principles

- .01 It is difficult to anticipate all the circumstances in which accounting principles may be applied. However, there is a strong presumption that adherence to GAAP would, in nearly all instances, result in [financial statements](#) that are not misleading. The “[Accounting Principles Rule](#)” recognizes that, upon occasion, there may be unusual circumstances when the literal application of GAAP would have the effect of rendering [financial statements](#) misleading. In such cases, the proper accounting treatment to apply is that which will not render the [financial statements](#) misleading.
- .02 The question of what constitutes unusual circumstances, as referred to in the “[Accounting Principles Rule](#),” is a matter of professional judgment involving the ability to support the

position that adherence to a promulgated principle within GAAP would be regarded generally by reasonable persons as producing misleading *financial statements*.

- .03 Examples of circumstances that may justify a departure from GAAP include new legislation or evolution of a new form of business transaction. Examples of circumstances that would not justify departures from GAAP include an unusual degree of materiality or conflicting industry practices. [Prior reference: paragraph .02 of ET section 203]
- .04 If the statements or data contain such departures, see the [“Accounting Principles Rule”](#) for further guidance.

2.320.040 Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP

- .01 Reference to GAAP in the [“Accounting Principles Rule”](#) means those accounting principles promulgated by bodies designated by [Council](#), which are listed in [appendix A](#). The bodies designed by [Council](#) to promulgate accounting principles are
 - a. FASAB,
 - b. FASB,
 - c. GASB, and
 - d. IASB.
- .02 [Financial statements](#) prepared pursuant to other accounting principles would be considered financial reporting frameworks other than GAAP within the context of the [“Accounting Principles Rule.”](#)
- .03 However, the “Accounting Principles Rule” does not preclude a [member](#) from preparing or reporting on [financial statements](#) that have been prepared pursuant to financial reporting frameworks other than GAAP, such as
 - a. financial reporting frameworks generally accepted in another country, including jurisdictional variations of IFRSs such that the entity’s [financial statements](#) do not meet the requirements for full compliance with IFRSs, as promulgated by the IASB;
 - b. financial reporting frameworks prescribed by an agreement or a contract; or
 - c. an other comprehensive basis of accounting, including statutory financial reporting provisions required by law or a U.S or foreign governmental regulatory body to whose jurisdiction the entity is subject.
- .04 In such circumstances, however, the [financial statements](#) or [member’s](#) reports thereon should not purport that the [financial statements](#) are in accordance with GAAP. Likewise, the [financial statements](#) or reports on those [financial statements](#), or both, should clarify the financial reporting framework(s) used. [Prior reference: paragraph .06 of ET section 203]

2.400 Acts Discreditable

2.400.001 Acts Discreditable Rule

- .01 A member shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

2.400.005 Application of the Conceptual Framework for Members in Business

- .01 In the absence of an interpretation of the “Acts Discreditable Rule” (AICPA, *Professional Standards*, ET section 2.400.001) that address a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business.”
- .02 A member would be considered in violation of the “Acts Discreditable Rule” if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [No prior reference: new content]

2.400.010 Discrimination and Harassment in Employment Practices

- .01 A final determination, no longer subject to appeal by a court or an administrative agency of competent jurisdiction, that a member has violated any antidiscrimination laws of the United States, state, or municipality, including those related to sexual and other forms of harassment, would cause such member to be presumed to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .03 of ET section 501]

2.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers

- .01 A member who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA’s written authorization shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .07 of ET section 501]

2.400.030 Failure to File a Tax Return or Pay a Tax Liability

- .01 A member who fails to comply with applicable federal, state, or local laws or regulations regarding (a) the timely filing of the member’s personal tax returns or tax returns for the member’s employer that the member has the authority to timely file or (b) the timely remittance of all payroll and other taxes collected on behalf of others may be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .08 of ET section 501]

2.400.040 Negligence in the Preparation of Financial Statements or Records

- .01 A member shall be considered in violation of the “Acts Discreditable Rule” if the member, by virtue of his or her negligence

- a. makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity;
- b. fails to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry; or
- c. signs, or permits or directs another to sign, a document containing materially false and misleading information. [Prior reference: paragraph .05 of ET section 501]

2.400.050 Governmental Bodies, Commissions, or Other Regulatory Agencies

- .01 Many governmental bodies, commissions, or other regulatory agencies have established requirements, such as standards, guides, rules, and regulations, that members are required to follow in the preparation of financial statements or related information. For example, the Securities and Exchange Commission (SEC), the Federal Communications Commission, state insurance commissions, and other regulatory agencies have established such requirements.
- .02 If a member prepares financial statements or related information (for example, management's discussion and analysis) for purposes of reporting to such bodies, commissions, or regulatory agencies, the member should follow the requirements of such organizations in addition to the applicable financial reporting framework.
- .03 A member's material departure from such requirements would be considered a violation of the "Acts Discreditable Rule" unless the member discloses in the financial statements or related information that such requirements were not followed and the applicable reasons. [Prior reference: paragraph .06 of ET section 501]

2.400.060 Indemnification and Limitation of Liability Provisions

- .01 Certain governmental bodies, commissions, or other regulatory agencies (collectively, regulators) have established requirements through laws, regulations, or published interpretations that
 - a. prohibit entities subject to their regulation (regulated entity) from including certain types of indemnification and limitation of liability provisions in agreements for the performance of audit or other attest services that are required by such regulators or
 - b. provide that the existence of such provisions disqualifies a member from rendering such services to these entities.

For example, federal banking regulators, state insurance commissions, and the SEC have established such requirements.

- .02 If a member enters into, or directs or knowingly permits another individual to enter into, a contract for the performance of audit or other attest services that are subject to the requirements of these regulators, the member should not include, or knowingly permit or direct another individual to include, an indemnification or limitation of liability provision that would cause the regulated entity or a member to be in violation of such requirements

or disqualify a member from providing such services to the regulated entity. A member who enters into, or directs or knowingly permits another individual to enter into, such an agreement for the performance of audit or other attest services would be in violation of the “Acts Discreditable Rule.” [Prior reference: paragraph .09 of ET section 501]

2.400.070 Confidential Information Obtained From Employment or Volunteer Activities

- .01 A member should maintain the confidentiality of his or her employer’s confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer’s vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity).
- .02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.
- .03 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.
- .04 When a member changes employment, a member should not use confidential employer information acquired as a result of the prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer’s confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.
- .05 A member would be considered in violation of the “Acts Discreditable Rule” if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.
- .06 The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:
 - a. Disclosure is permitted by law and authorized by the employer.
 - b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or

- ii. inform the appropriate public authorities of violations of law that have been discovered.
 - c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
 - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
 - ii. protect the professional interests of a *member* in legal proceedings;
 - iii. comply with professional standards and other ethics requirements; or
 - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer’s confidential complaint hotline or those charged with governance.
 - d. Disclosure is permitted on behalf of the employer to
 - i. obtain financing with lenders;
 - ii. deal with vendors, clients, and customers; or
 - iii. deal with the employer’s external accountant, attorneys, regulators, and other business professionals.
- .07** In deciding whether to disclose confidential employer information, relevant factors to consider include, but are not limited to, the following:
- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any.
 - b. Whether the parties to whom the communication may be addressed are appropriate recipients.
- .08** A *member* may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.
- .09** Refer to the “[Subordination of Judgment](#)” interpretation of the “Integrity and Objectivity Rule” (AICPA, *Professional Standards*, ET sec. 2.130.020) for additional guidance. [Prior reference: paragraph .10 of ET section 501]

2.400.090 False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services

- .01** A *member* would be in violation of the “[Acts Discreditable Rule](#)” if the *member* promotes or markets the *member’s* abilities to provide *professional services* or makes claims about the *member’s* experience or qualifications in a manner that is false, misleading, or deceptive.

- .02** Promotional efforts would be false, misleading, or deceptive if they contain any claim or representation that would be likely to cause a reasonable person to be misled or deceived. This includes any representation about CPA licensure or any other professional certification or accreditation that is not in compliance with the requirements of the relevant licensing authority or designating body. [Prior reference: paragraph .11 of ET section 501]

2.400.100 Use of the CPA Credential

- .01** A *member* should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA credential. A *member* who fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of the [“Acts Discreditable Rule.”](#) [Prior reference .12 section 501].

Part 3: Other Members

3.000 Introduction

.01 Part 3 of the AICPA Code of Professional Conduct (AICPA Code) applies to members who are not in public practice or members in business. Accordingly, when the term member is used in part 3 of the AICPA Code, the requirements apply only to such members. [No prior reference: new content]

3.000.030 Applicability

.01 Part 3 of the AICPA Code applies to members who are not in public practice or members in business, such as members who are retired or not currently employed. These members are subject to the “Act Discreditable Rule” (AICPA, *Professional Standards*, ET sec. 3.400.001). [No prior reference: new content]

3.400 Acts Discreditable

3.400.001 Acts Discreditable Rule

- .01 A [member](#) shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

3.400.010 Discrimination and Harassment in Employment Practices

- .01 A final determination, no longer subject to appeal, by a court or an administrative agency of competent jurisdiction that a [member](#) has violated any antidiscrimination laws of the United States, state, or municipality, including those related to sexual and other forms of harassment, would cause such [member](#) to be presumed to have committed an act discreditable to the profession, in violation of the "[Act Discreditable Rule](#)." [Prior reference: paragraph .03 of ET section 501]

3.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers

- .01 A [member](#) who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "[Acts Discreditable Rule](#)." [Prior reference: paragraph .07 of ET section 501]

3.400.030 Failure to File a Tax Return or Pay a Tax Liability

- .01 A [member](#) who fails to comply with applicable federal, state, or local laws or regulations regarding (a) the timely filing of the [member's](#) personal tax returns or (b) the timely remittance of all payroll and other taxes collected on behalf of others may be considered to have committed an act discreditable to the profession, in violation of the "[Acts Discreditable Rule](#)." [Prior reference: paragraph .08 of ET section 501]

3.400.070 Confidential Information Obtained From Employment or Volunteer Activities

- .01 A [member](#) should maintain the confidentiality of his or her employer's confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the [member](#) is working in a volunteer capacity).
- .02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the [member](#) may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.
- .03 A [member](#) should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or [close relative](#) or [immediate family](#) member. The [member](#)

should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

- .04** When a member changes employment, a member should not use confidential employer information acquired as a result of the prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.
- .05** A member would be considered in violation of the "Acts Discreditable Rule" if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.
- .06** The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:
- a. Disclosure is permitted by law and authorized by the employer.
 - b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or
 - ii. inform the appropriate public authorities of violations of law that have been discovered.
 - c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
 - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
 - ii. protect the professional interests of a member in legal proceedings;
 - iii. comply with professional standards and other ethics requirements; or
 - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or those charged with governance.
 - d. Disclosure is permitted on behalf of the employer to
 - i. obtain financing with lenders;
 - ii. deal with vendors, clients, and customers; or

iii. deal with the employer's external accountant, attorneys, regulators, and other business professionals.

- .07** In deciding whether to disclose confidential employer information, relevant factors to consider include, but are not limited to, the following:
- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any.
 - b. Whether the parties to whom the communication may be addressed are appropriate recipients.
- .08** A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information. [Prior reference: paragraph .10 of ET section 501]

3.400.090 False, Misleading, or Deceptive Acts in Promoting or Marketing Services

- .01** A member would be in violation of the "Acts Discreditable Rule" if the member promotes or markets the member's abilities to provide services or makes claims about the member's experience or qualifications in a manner that is false, misleading, or deceptive.
- .02** Promotional efforts would be false, misleading, or deceptive if they contain any claim or representation that would be likely to cause a reasonable person to be misled or deceived. This includes any representation about CPA licensure or any other professional certification or accreditation that is not in compliance with the requirements of the relevant licensing authority or designating body. [No prior reference: new content]

3.400.100 Use of the CPA Credential

- .01** A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA credential. A member who fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of the "Acts Discreditable Rule." [Prior reference .12 section 501]

Appendix A

Council Resolution Designating Bodies to Promulgate Technical Standards

[As amended January 12, 1988. Revised April 1992, October 1999, May 2004, October 2007, May 2008, and XX 201X.]

Federal Accounting Standards Advisory Board

RESOLVED: That the Federal Accounting Standards Advisory Board (FASAB), with respect to its Statements of Federal Accounting Standards and concepts adopted and issued in March 1993 and subsequently, in accordance with its rules of procedure, the memorandum of understanding, and public notice designating FASAB's standards and concepts as having substantial authoritative support, be, and hereby is, designated by the Council of the AICPA (Council) as the body to establish financial accounting principles for federal governmental entities, pursuant to the "Accounting Principles Rule" (AICPA, *Professional Standards*, ET sec. 1.320.001) of the AICPA Code of Professional Conduct (AICPA Code).

[Added by Council October 1999; revised XX 201X.]

Financial Accounting Standards Board

WHEREAS: In 1959, the Council designated the Accounting Principles Board (APB) to establish accounting principles, and

WHEREAS: The Council is advised that the Financial Accounting Standards Board (FASB) has become operational, it is

RESOLVED: That, as of the date hereof, FASB, in respect of statements of financial accounting standards finally adopted by such board in accordance with its rules of procedure and the bylaws of the Financial Accounting Foundation (FAF), be, and hereby is, designated by this Council as the body to establish accounting principles, pursuant to the "Accounting Principles Rule," and standards on disclosure of financial information for such entities outside financial statements in published financial reports containing financial statements under the "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code, provided, however, that any accounting research bulletins or opinions of the APB issued or approved for exposure by the APB prior to April 1, 1973, and finally adopted by such board on or before June 30, 1973, shall constitute statements of accounting principles promulgated by a body designated by Council, as contemplated in the "Accounting Principles Rule" of the AICPA Code, unless and until such time as they are expressly superseded by action of FASB.

[Revised XX 201X.]

Governmental Accounting Standards Board

WHEREAS: The Governmental Accounting Standards Board (GASB) has been established by the board of trustees of FAF to issue standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities, and

WHEREAS: The AICPA is a signatory to the agreement creating GASB as an arm of FAF and has supported GASB professionally and financially, it is

RESOLVED: That, as of the date hereof, GASB, with respect to Statements of Governmental Accounting Standards adopted and issued in July 1984 and subsequently, in accordance with its rules of procedure and the bylaws of FAF, be, and hereby is, designated by the Council of the AICPA as the body to establish financial accounting principles for state and local governmental entities, pursuant to the “Accounting Principles Rule” of the AICPA Code, and standards on disclosure of financial information for such entities outside financial statements in published financial reports containing financial statements under the “Compliance With Standards Rule” of the AICPA Code.

[Revised XX 201X.]

Public Company Accounting Oversight Board

WHEREAS: The Public Company Accounting Oversight Board (PCAOB) has been established pursuant to the Sarbanes-Oxley Act of 2002 (the Act), and

WHEREAS: The PCAOB has authority under the Act to establish or adopt, or both, by PCAOB rule, auditing and related attestation standards, quality control, ethics, independence, and other standards relating to the preparation and issuance of audit reports for issuers, as defined in the Act, it is

RESOLVED: That the PCAOB be, and hereby is, designated by the Council as the body to establish standards relating to the preparation and issuance of audit reports for entities within its jurisdiction, as defined by the Act, pursuant to the “General Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.300.001) and the “Compliance With Standards Rule” of the AICPA Code.

[Added by Council May 2004; revised XX 201X.]

International Accounting Standards Board

RESOLVED: That the International Accounting Standards Board (IASB) is hereby designated as the body to establish professional standards with respect to international financial accounting and reporting principles pursuant to the “Compliance With Standards Rule” and the “Accounting Principles Rule” of the AICPA Code; and

BE IT FURTHER RESOLVED: That the Council shall reassess, no sooner than three years but no later than five years after the effective date of this resolution, whether continued recognition of the IASB as the body designated to establish professional standards with respect to international financial accounting and reporting principles under the “Compliance With Standards Rule” and the “Accounting Principles Rule” of the AICPA Code is appropriate.

[Added by Council May 18, 2008; revised XX 201X.]

AICPA COMMITTEES AND BOARDS

WHEREAS: The membership of the AICPA has adopted the “General Standards Rule” of the AICPA Code, which authorizes the Council to designate bodies to promulgate technical standards with which members must comply, and therefore, it is

Accounting and Review Services Committee

RESOLVED: That the AICPA Accounting and Review Services Committee (ARSC) is hereby designated to promulgate standards under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market.

[Revised XX 201X.]

Auditing Standards Board

RESOLVED: That, with respect to standards relating to the preparation and issuance of audit reports not included within the resolution on the PCAOB, the AICPA Auditing Standards Board (ASB) is hereby designated as the body authorized under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code to promulgate auditing, attestation, and quality control standards and procedures.

[Revised XX 201X.]

RESOLVED: That the ASB shall establish, under Statements on Auditing Standards, the responsibilities of members with respect to standards for disclosure of financial information outside the financial statements in published financial reports containing financial statements.

[Revised May 2004 and XX 201X.]

Management Consulting Services Executive Committee

RESOLVED: That the AICPA Management Consulting Services Executive Committee is hereby designated to promulgate standards under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code with respect to the offering of management consulting services, provided, however, that such standards do not deal with the broad question of what, if any, services should be proscribed.

AND FURTHER RESOLVED: That any AICPA committee or board now or in the future authorized by the Council to issue enforceable standards under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code must observe an exposure process seeking comment from other affected committees and boards, as well as the general membership.

[Revised April 1992 and revised XX 201X.]

Attestation Standards

RESOLVED: That the AICPA ARSC, the ASB, and the Management Consulting Services Executive Committee are hereby designated as bodies authorized under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code to promulgate attestation standards in their respective areas of responsibility.

[Added by Council May 1988; revised April 1992 and XX 201X.]

Tax Executive Committee

RESOLVED: That the Tax Executive Committee is hereby designated as the body authorized under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code to promulgate professional practice standards with respect to tax services.

[Added by Council October 1999; revised XX 201X.]

Forensic and Valuation Services Executive Committee

RESOLVED: That the Forensic and Valuation Services Executive Committee is hereby designated as the body to promulgate professional standards with respect to forensic and valuation services under the “General Standards Rule” and the “Compliance With Standards Rule” of the AICPA Code.

[Added by Council October 2007; revised XX 201X]

Appendix B

Council Resolution Concerning the Form of Organization and Name Rule

[As adopted May 23, 1994. Revised May 7, 1997; May 15, 2000; May 22, 2006; and XX 201X.]

- A. RESOLVED: That with respect to a member engaged in public practice in a firm or an organization that performs (1) any audit or other engagement performed in accordance with Statements on Auditing Standards (SASs), (2) any review of a financial statement performed in accordance with Statements on Standards for Accounting and Review Services (SSARSs), or (3) any examination of prospective financial information performed in accordance with Statements on Standards for Attestation Engagements or that holds itself out as a firm of CPAs or uses certified public accountant(s) or the designation CPA in connection with its name, the characteristics of such a firm or organization under the “Form of Organization and Name Rule” (AICPA, *Professional Standards*, ET sec. 1.800.001) of the AICPA Code of Professional Conduct (AICPA Code) are set forth as follows:
1. A majority of the ownership of the firm in terms of financial interests and voting rights must belong to CPAs. Any non-CPA owner would have to be actively engaged as a member of the firm or its affiliates. Ownership by investors or commercial enterprises not actively engaged as members of the firm or its affiliates is against the public interest and continues to be prohibited.
 2. There must be a CPA who has ultimate responsibility for all the services described in (A), compilation services, and other engagements governed by SASs or SSARSs, and non-CPA owners could not assume ultimate responsibility for any such services or engagements.
 3. Non-CPA owners would be permitted to use the title “principal,” “owner,” “officer,” “member,” or “shareholder” or any other title permitted by state law but not hold themselves out to be CPAs.
 4. A member shall not knowingly permit a person, whom the member has the authority or capacity to control, to carry out on his or her behalf, either with or without compensation, acts that, if carried out by the member, would place the member in violation of the rules. Further, a member may be held responsible for the acts of all persons associated with him or her in public practice whom the member has the authority or capacity to control.
 5. Owners shall at all times own their equity in their own right and shall be the beneficial owners of the equity capital ascribed to them. Provision would have to be made for the ownership to be transferred, within a reasonable period of time, to the firm or other qualified owners if the owner ceases to be actively engaged in the firm or its affiliates.
 6. Non-CPA owners would not be eligible for regular membership in the AICPA, unless they meet the requirements in paragraph .01(2.2.1) of BL section 220, *Requirements for Admission to Membership* (AICPA, *Professional Standards*).

- B. RESOLVED: The characteristics of all other firms or organizations are deemed to be whatever is legally permissible under applicable law or regulation, except as otherwise provided in (C).
- C. RESOLVED: That with respect to a member engaged in public practice in a firm or an organization that is not within the description of a firm or an organization set forth in (A), but who performs compilations of financial statements in accordance with SSARs, the characteristics of such a firm or an organization under the “Form of Organization and Name Rule” of the AICPA Code are set forth as follows:
1. There must be a CPA who has ultimate responsibility for any financial statement compilation services provided by the firm and each business unit performing such compilation services, and non-CPA owners could not assume ultimate responsibility for any such services.
 2. Any compilation report must be signed individually by a CPA and may not be signed in the name of the firm or organization.

Appendix C

Mapping Document

[As of March 6, 2013]

Extant Code Citations	Title In Code	New Citation In Code	Title In Codification
Introduction	Composition, Applicability, and Compliance	0.100.010	Rules of Conduct
Introduction	Other Guidance	0.100.020	Interpretations and Other Guidance
New		0.200.010	Structure of the AICPA Code
ET section 91	Applicability	0.200.020	Application of the AICPA Code
New		0.200.030	Citations to Prior ET Sections
New		0.200.040	Transition Provisions
ET section 51	Preamble	0.300.010	Preamble
ET section 52	Article I - Responsibilities	0.300.020	Responsibilities
ET section 53	Article II - The Public Interest	0.300.030	The Public Interest
ET section 54	Article III - Integrity	0.300.040	Integrity
ET section 55	Article IV - Objectivity and Independence	0.300.050	Objectivity and Independence
ET section 56	Article V - Due Care	0.300.060	Due Care
ET section 57	Article VI - Scope and Nature of Services	0.300.070	Scope and Nature of Services
ET section 92	Definitions	0.400.00	Definitions
ET Section 101.20	Application of the Independence Rules to Affiliates - Definitions	0.400.01	Affiliate
New		0.400.02	Attest Client
ET section 92.01	Attest engagement	0.400.03	Attest Engagement
ET section 92.02	Attest engagement team	0.400.04	Attest Engagement Team

ET Section 101.17	Financial Relationships - Definitions	0.400.05	Beneficially Owned
ET section 92.03	Client	0.400.06	Client
ET section 92.04	Close relative	0.400.07	Close Relative
ET section 92.05	Confidential Client Information	0.400.08	Confidential Client Information
Various locations		0.400.09	Control (s) (led)
ET section 92.06	Council	0.400.10	Council
ET section 92.07	Covered Member	0.400.11	Covered Member
ET Section 101.17	Financial Relationships - Definitions	0.400.12	Direct financial interest
ET Section 101.17	Financial Relationships - Definitions	0.400.13	Financial interest
ET Section 101.20	Application of the Independence Rules to Affiliates - Definitions	0.400.14	Financial statement attest client
ET section 92.10	Financial statements	0.400.15	Financial statements
ET section 92.11	Firm	0.400.16	Firm
ET section 92.13	Immediate family	0.400.17	Immediate family
ET Section 100-1	Conceptual Framework for AICPA Independence Standards - Definitions	0.400.18	Independence
ET Section 101.17	Financial Relationships - Definitions	0.400.19	Indirect financial interest
ET section 92.14	Individual in a position to influence the attest engagement	0.400.20	Individual in a position to influence the attest engagement
ET section 92.15	Institute	0.400.21	Institute
ET section 92.16	Interpretation of a rules of conduct	0.400.22	Interpretation
ET section 92.17	Joint closely held investment	0.400.23	Joint Closely Held Investments
ET section 92.18	Key position	0.400.24	Key position
ET section 92.09	Financial institution	0.400.25	Lending institution
ET section 92.19	Loan	0.400.26	Loan
ET section 92.20	Manager	0.400.27	Manager
ET section 92.21	Member	0.400.28	Member
ET section 92.22	Member in business	0.400.29	Member in business
ET section 92.23	Network	0.400.30	Network
ET section 92.24	Network Firm	0.400.31	Network Firm

ET section 92.25	Normal Lending Procedures, Terms, and Requirements	0.400.32	Normal lending procedures, terms, and requirements
ET section 92.26	Office	0.400.33	Office
ET section 92.27	Partner	0.400.34	Partner
ET section 92.28	Partner Equivalents	0.400.35	Partner Equivalents
ET section 92.29	Period of the professional engagement	0.400.36	Period of the professional engagement
ET section 92.30	Practice of public accounting	0.400.37	Public Practice (also referred to as the practice of public accounting)
ET section 92.31	Professional services	0.400.38	Professional Services
ET Section 100-1	Conceptual Framework for AICPA Independence Standards - Definitions	0.400.39	Public interest entities
ET Section 100-1	Conceptual Framework for AICPA Independence Standards - Definitions	0.400.40	Safeguards
ET Section 101.02	Interpretation of Rule 101-Application of the Independence Rules to Covered Members Formerly Employed by a Client or Otherwise Associated with a Client	0.400.41	Share-based compensation arrangements
ET section 92.32	Significant influence	0.400.42	Significant influence
ET Section 101.05	Performance of nonattest services - Management Responsibilities	0.400.43	Source Documents
ET Section 191.224-.225	Use of a Third-Party Service Provider to Assist a Member in Providing Professional Services	0.400.44	Third-party service provider
ET Section 291.023-.024	Applicability of General and Technical Standards When Using a Third-Party Service Provider	0.400.44	Third-party service provider
ET Section 391.001-.002	Use of a Third-Party Service Provider to Provide Professional Services to Clients or Administrative Support Services to the Member	0.400.44	Third-party service provider

New		0.500.000	Nonauthoritative Guidance
New		0.600.010	New and Revised Interpretations
New		0.600.020	Pending Interpretations
New		0.700.000	Deleted Interpretations
New		1.000.000	Members in Public Practice - Introduction
New		1.000.010	Conceptual Framework for Members in Public Practice
New		1.000.020	Ethical Conflicts
ET Section 102.01	Integrity and Objectivity	1.100.001	Integrity and Objectivity Rule
New		1.100.005	Integrity and Objectivity - Application of the Conceptual Framework for Members in Public Practice
ET Section 102.03	Conflicts of Interest	1.110.010	Conflicts of Interest
ET Section 191.186-.187	Service on Board of Directors of Federated Fund-Raising Organization	1.110.010.01 j	Conflicts of Interest
ET Section 191.198-.199	Member Providing Services for Company Executives	1.110.010.01 k	Conflicts of Interest
ET Section 191.220-.221	Member is Connected With an Entity That has a Loan to or From a Client	1.110.010.01 l	Conflicts of Interest
ET Section 191.170-.171	Bank Director	1.110.020	Director Positions
ET Section 191.226-.227	Acceptance or Offering of Gifts or Entertainment	1.120.010	Offering or Accepting Gifts or Entertainment
ET Section 102.02	Knowing misrepresentations in the preparation of financial statements or records	1.130.010	Knowing Misrepresentations in the Preparation of Financial Statements or Records
ET Section 102.05	Subordination of judgment by a member	1.130.020	Subordination of Judgment
ET Section 102.07	Professional Services involving client advocacy	1.140.010	Client Advocacy

ET Section 191.224-.225	Use of a Third-Party Service Provider to Assist a Member in Providing Professional Services	1.150.040	Use of a Third-Party Service Provider
ET Section 101.01	Rule 101 - Independence	1.200.001	Independence Rule
ET Section 101.02	Interpretation of Rule 101 - Other Considerations	1.210.005	Application of the Conceptual Framework for Independence
ET Section 101.02	Interpretation of Rule 101 - Other Considerations	1.210.010.01	Conceptual Framework for Independence
ET Section 100-1	Conceptual Framework for AICPA Independence Standards - Introduction	1.210.010.02-.21	Conceptual Framework for Independence
ET Section 101.19	Network and network firms	1.220.010.01-.05	Network and Network Firms
ET Section 101.19	Network and network firms - Characteristics of a Network	1.220.010.06-.20	Characteristics of a Network
ET Section 101.16	The effect of alternative practice structures on the applicability of independence rules	1.220.020.01-.03, .05-.06	Alternative Practice Structures
ET Section 101.16	The effect of alternative practice structures on the applicability of independence rules - APS Independence Rules for Persons and Entities Other than Covered Members	1.220.020.04, .08-.11	Alternative Practice Structures
ET Section 101.16	The effect of alternative practice structures on the applicability of independence rules - APS Independence Rules for Covered Members	1.220.020.04, .09, .12	Alternative Practice Structures
ET Section 101.16	The effect of alternative practice structures on the applicability of independence rules - APS Model	1.220.020.05	Alternative Practice Structures

ET Section 101.16	The effect of alternative practice structures on the applicability of independence rules - Other Matters	1.220.020.07, .12-.14	Alternative Practice Structures
ET Section 191.142-.143	Use of Nonindependent CPA Firm on an Engagement	1.220.030	Use of a Nonindependent CPA Firm on an Engagement
ET Section 101.20	Application of the Independence Rules to Affiliates - Introduction	1.224.010.01	Client Affiliates
ET Section 101.20	Application of the Independence Rules to Affiliates - Application of the Independence Rules to Affiliates	1.224.010.02	Client Affiliates
ET Section 101.20	Application of the Independence Rules to Affiliates - Other Considerations	1.224.010.03, .05	Client Affiliates
ET Section 101.12	The effect of independence of relationships with entities included in the governmental financial statements	1.224.020.01-.02	Entities Included in State and Local Government Financial Statements
ET Section 101.12	The effect of independence of relationships with entities included in the governmental financial statements - Auditor of Major Fund, Nonmajor Fund, Internal Service Fund, Fiduciary Fund, or Component Unit of the Financial Reporting Entity or Other Entity that Should be Disclosed in the Notes to the Basic Financial Statements	1.224.020.03, .05, .07-.08	Entities Included in State and Local Government Financial Statements
ET Section 101.12	The effect of independence of relationships with entities included in the governmental financial statements - Auditor of Financial Reporting Entity	1.224.020.04, .06	Entities Included in State and Local Government Financial Statements
ET Section 191.200-.201	Actions Permitted When Independence is Impaired	1.226.010	Consenting to the Use of the Previously Issued Report

ET Section 191.188-.189	Indemnification Clause in Engagement Letters	1.228.010	Indemnification of a Covered Member
ET Section 191.204-.205	Indemnification of a Client	1.228.020	Indemnification of an Attest Client
ET Section 191.190-.191	Agreement with Attest Client to Use ADR Techniques	1.228.030.01-.02	Alternative Dispute Resolution
ET Section 191.192-.193	Commencement of ADR Proceeding	1.228.030.03	Alternative Dispute Resolution
ET Section 191.103-.104	Unpaid Fees	1.230.010.02-.03	Unpaid Fees
New		1.230.020	Fees and Other Types of Remuneration
ET Section 101.02	Interpretation of Rule 101-A1	1.240.010.01-.02	Overview of Financial Interests
ET Section 101.17	Financial Relationships - Financial Interests	1.240.010.01-.02	Overview of Financial Interests
ET Section 101.02	Interpretation of Rule 101-B	1.240.010.03	Overview of Financial Interests
ET Section 101.17	Financial Relationships - Unsolicited Financial Interest	1.240.020	Unsolicited Financial Interests
ET Section 101.17	Financial Relationships - Mutual Funds	1.240.030	Mutual Funds
ET Section 101.17	Financial Relationships - Retirement, Savings, Compensation, or Similar Plans	1.240.040	Retirement, Savings, Compensation, or Similar Plans
ET Section 101.17	Financial Relationships - Partnerships	1.240.050	Partnerships
ET Section 101.17	Financial Relationships - Limited Liability Companies	1.240.060	Limited Liability Companies
ET Section 101.17	Financial Relationships - Section 529 Plans	1.240.070	Section 529 Plans
ET Section 191.021-.022	Member Designated to Serve as Executor or Trustee	1.245.010.01	Trustee or Executor
ET Section 101.02	Interpretation of Rule 101-A2	1.245.010.02	Trustee or Executor
ET Section 101.17	Financial Relationships - Trust Investments	1.245.020	Trust Investments
ET Section 101.17	Financial Relationships - Retirement, Savings, Compensation, or Similar Plans	1.250.010	Plan is an Attest Client or is Sponsored by an Attest Client

ET Section 191.214-.215	Participation in Employee Benefit Plan Sponsored by Client	1.250.010	Plan is an Attest Client or is Sponsored by an Attest Client
ET Section 101.04	Employment or Association with Attest Clients	1.250.020	Former Partners and Professional Employees Participation in a Firm-Sponsored Plan
ET Section 191.140-.141	Member's Depository Relationship With Client Financial Institution	1.255.010	Depository Accounts
ET Section 191.081-.082	Financial Services Company Client Has Custody of a Member's Assets	1.255.020	Brokerage and Other Accounts
ET Section 101.17	Financial Relationships - Insurance Products	1.257.010	Policies with No Investment Option
ET Section 101.17	Financial Relationships - Insurance Products	1.257.020	Policies with Investment Options
ET Section 101.17	Financial Relationships - Insurance Products	1.257.030	Insurer Undergoes Demutualization
ET Section 101.02	Interpretation of Rule 101-A4	1.260.010	Loans
ET Section 191.150-.151	Membership in Client Credit Union	1.260.020	Loans and Leases with Lending Institutions
ET Section 101.07	Loans from financial institution clients and related terminology	1.260.020.01	Loans and Leases with Lending Institutions
ET Section 101.07	Loans from financial institution clients and related terminology - Grandfathered Loans	1.260.020.02-.03	Loans and Leases with Lending Institutions
ET Section 101.07	Loans from financial institution clients and related terminology - Other Permitted Loans	1.260.020.04-.06	Loans and Leases with Lending Institutions
ET Section 191.134-.135	Servicing of Loan	1.260.030	Servicing of a Loan
ET Section 191.182-.183	Member Leasing Property to or From Client	1.260.040	Leases
ET Section 191.220-.221	Member is Connected With an Entity That has a Loan to or From a Client	1.260.050	Association with an Entity that has a Loan To or From an Attest Client

ET Section 101.14	Independence and cooperative arrangements with clients	1.265.010	Cooperative Arrangements with Attest Clients
ET Section 101.02	Interpretation of Rule 101-A3	1.265.020.01	Joint Closely Held Investments
ET Section 191.184-.185	Joint Interest in Vacation Home	1.265.020.02	Joint Closely Held Investments
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family	1.270.010	Immediate Family Members
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Permitted Employment	1.270.020.01-.03	Immediate Family Member is Employed by the Attest Client
ET Section 101.02	Interpretation of Rule 101 - Grandfathered Employment Relationships	1.270.020.04	Immediate Family Member is Employed by the Attest Client
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Employee Benefits Plans Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans	1.270.030	Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client (Other than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans)
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Employee Benefits Plans Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans	1.270.040	Immediate Family Member Participation in an Employee Benefit Plan With Financial Interests in an Attest Client

ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients	1.270.050	Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Beneficial Financial Interests in Attest Clients
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client	1.270.060	Immediate Family Member Participation in Share-Based Compensation Arrangements Resulting in Rights to Acquire Shares in an Attest Client
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Share-Based Compensation Arrangements Based Upon Stock Appreciation	1.270.070	Immediate Family Member Participation in Share-Based Compensation Arrangements Based Upon Stock Appreciation
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Covered Member's Immediate Family - Nonqualified Deferred Compensation Plans	1.270.080	Immediate Family Member Participation in a Nonqualified Deferred Compensation Plan
ET Section 101.02	Interpretation of Rule 101 - Application of the Independence Rules to a Close Relatives	1.270.100.01-.03	Close Relatives
ET Section 101.02	Interpretation of Rule 101 - Grandfathered Employment Relationships	1.270.100.04	Close Relatives
ET Section 101.02	Interpretation of Rule 101-C	1.275.005.01-.02	Simultaneous Employment or Association with an Attest Client
ET Section 101.21	Permitted Employment With Client Educational Institution	1.275.005.03	Simultaneous Employment or Association with an Attest Client

ET Section 101.06	Honorary directorships and trusteeships of not-for-profit organization	1.275.010	Honorary Director or Trustee of a Not-for-Profit Organization
ET Section 191.144-.145	Member on Advisory Board of Client	1.275.015	Advisory Board
ET Section 191.039-.040	Member Serving on Governmental Advisory Unit	1.275.020	Governmental Advisory Committee
ET Section 191.164-.165	Campaign Treasurer	1.275.025	Campaign Treasurer
ET Section 191.027-.028	Member on Board of Federated Fund-Raising Organization	1.275.030	Federated Fund-Raising Organization
ET Section 191.128-.129	Member Serves on Board of Organization for Which Client Raises Funds	1.275.035	Fund-Raising Organization
ET Section 101.02	Interpretation of Rule 101-Application of the Independence Rules to Covered Members Formerly Employed by a Client or Otherwise Associated with a Client	1.275.100	Former Employment or Association with an Attest Client
ET Section 101.04	Employment or Association with Attest Clients - Considering Employment or Association with the Client	1.275.200	Considering Employment or Association with an Attest Client
ET Section 101.04	Employment or Association with Attest Clients	1.275.210	Subsequent Employment or Association with an Attest Client
ET Section 191.033-.034	Member of Social Club	1.280.010	Member of a Social Club
ET Section 191.003-.004	Association Membership	1.280.020	Member of a Trade Association
ET Section 191.061-.062	Performance of Services for CIRAs, Including Cooperatives, Condominium Associations, Planned Unit Developments, Homeowners Associations, and Timeshare Developments	1.280.030	Member of a Common Interest Realty Association
ET Section 191.150-.151	Membership in Client Credit Union	1.280.040	Member of a Credit Union

ET Section 191.228-.229	Acceptance or Offering of Gifts and Entertainment to or From an Attest Client	1.285.010	Offering or Accepting Gifts or Entertainment
ET Section 101.08	The effect of actual or threatened litigation on independence	1.290.010	Actual or Threatened Litigation
ET Section 101.05	Performance of nonattest services - Introduction and Engagements Subject to Independence Rules of Certain Regulatory Bodies	1.295.010	Scope and Applicability of Nonattest Services
ET Section 101.05	Performance of nonattest services - Management Responsibilities	1.295.030	Management Responsibilities
ET Section 101.05	Performance of nonattest services - General Requirements	1.295.040	General Requirements for Performing Nonattest Services
ET Section 101.05	Performance of nonattest services - General Requirements	1.295.050	Documentation Requirements When Providing Nonattest Services
ET Section 101.05	Performance of nonattest services - Management Responsibilities	1.295.105	Advisory Services
ET Section 191.015-.016	Member Providing Advisory Services	1.295.105	Advisory Services
ET Section 101.05	Performance of nonattest services - Appraisal, Valuation and Actuarial Services	1.295.110	Appraisal, Valuation, and Actuarial Services
ET Section 101.05	Performance of nonattest services - Benefit Plan Administration	1.295.115	Benefit Plan Administration
ET Section 101.05	Performance of nonattest services - Bookkeeping	1.295.120	Bookkeeping, Payroll, and Other Disbursements
ET Section 101.05	Performance of nonattest services - Nontax Disbursements	1.295.120	Bookkeeping, Payroll, and Other Disbursements
ET Section 101.05	Performance of nonattest services - Business Risk Consulting	1.295.125	Business Risk Consulting

ET Section 101.05	Performance of nonattest services - Corporate Finance - Consulting or Advisory	1.295.130	Corporate Finance Consulting
ET Section 101.05	Performance of nonattest services - Executive or employee search	1.295.135	Executive or Employee Recruiting
ET Section 101.05	Performance of nonattest services - Forensic Accounting Services	1.295.140	Forensic Accounting
ET Section 101.05	Performance of nonattest services - Information Systems - Design, Installation or integration	1.295.145	Information Systems Design, Implementation, or Integration
ET Section 101.05	Performance of nonattest services - Internal Audit Assistance Services	1.295.150	Internal Audit
ET Section 101.05	Performance of nonattest services - Investment - Advisory or Management	1.295.155	Investment Advisory or Management
ET Section 101.05	Performance of nonattest services - Tax Compliance Services	1.295.160.01-.05, .07	Tax Services
New		1.295.160.06	Tax Services - Power of Attorney
ET Section 101.13	Modified Application of Rule 101 for Engagements Performed in Accordance with Statements on Standards for Attestations Engagements	1.297.010	Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements
ET Section 101.13	Modified Application of Rule 101 for Engagements Performed in Accordance with Statements on Standards for Attestations Engagements - AUP Engagements	1.297.020	Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs
ET Section 101.13	Modified Application of Rule 101 for Engagements Performed in Accordance with Statements on Standards for Attestations Engagements	1.297.030	Engagements, Other Than AUPs, Performed in Accordance With SSAEs
ET Section 201.01	General Standards	1.300.001	General Standards Rule

New		1.300.005	General Standards - Application of the Conceptual Framework for Members in Public Practice
ET Section 201.02	Competence	1.300.010	Competence
ET Section 291.017-.018	Supervision of Technical Specialist on Management Consulting Services Engagements	1.300.020	Supervision of a Specialist on Consulting Engagements
ET Section 291.019-.020	Submission of Financial Statements by a Member in Public Practice	1.300.030	Submission of Financial Statements
ET Section 291.015-.016	Subcontractor Selection for Management Consulting Service Engagements	1.300.040	Use of a Third-Party Service Provider
ET Section 291.023-.024	Applicability of General and Technical Standards When Using a Third-Party Service Provider	1.300.040	Use of a Third-Party Service Provider
ET Section 202.01	Compliance with Standards	1.310.001	Compliance with Standards
New		1.310.005	Compliance with Standards - Application of the Conceptual Framework for Members in Public Practice
ET Section 203.01	Accounting Principles	1.320.001	Accounting Principles Rule
New		1.320.005	Accounting Principles - Application of the Conceptual Framework for Members in Public Practice
ET Section 203.05	Responsibility of employees for the preparation of financial statements in conformity with GAAP	1.320.010	Responsibility for Affirming that Financial Statements Are in Conformity With the Applicable Financial Reporting Framework

ET Section 203.03	Status of FASB, GASB and FASAB interpretations	1.320.020	Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations
ET Section 203.02	Departures from Generally Accepted Accounting Principles	1.320.030	Departures From Generally Accepted Accounting Principles
ET Section 203.06	Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other than GAAP	1.320.040	Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other than GAAP
ET Section 501.01	Acts Discreditable	1.400.001	Acts Discreditable Rule
New		1.400.005	Acts Discreditable - Application of the Conceptual Framework for Members in Public Practice
ET Section 501.03	Discrimination and Harassment in Employment Practices	1.400.010	Discrimination and Harassment in Employment Practices
ET Section 501.07	Solicitation or disclosure of CPA examination questions and answers	1.400.020	Solicitation or Disclosure of CPA Examination Questions and Answers
ET Section 501.08	Failure to file tax returns or pay tax liability	1.400.030	Failure to File a Tax Return or Pay a Tax Liability
ET Section 501.05	Negligence in the preparation of financial statements or records	1.400.040	Negligence in the Preparation of Financial Statements or Records
ET Section 501.06	Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies	1.400.050	Governmental Bodies, Commissions, or Other Regulatory Agencies
ET Section 501.04	Failure to follow standards and/or procedures or other requirements in governmental audits	1.400.055	Governmental Audits

ET Section 501.09	Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies on indemnification and limitation of liability provisions in connection with audit and other attest services	1.400.060	Indemnification and Limitation of Liability Provisions
ET Section 501.10	Confidential Information Obtained From Employment or Volunteer Activities	1.400.070	Confidential Information Obtained from Employment or Volunteer Activities
New		1.400.090	False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services
ET Section 501.12	Use of CPA Credential	1.400.100	Use of the CPA Credential
ET Section 501.02	Response to Requests by Clients and Former Clients for Records - Terminology	1.400.200.01	Records Request
ET Section 501.02	Response to Requests by Clients and Former Clients for Records - Interpretation	1.400.200.02-.11	Records Request
ET Section 591.377-.378	Requests for Records Pursuant to Interpretation 501-1	1.400.200.06	Records Request
ET Section 591.381-.382	Member Removing Client Files From an Accounting Firm	1.400.210.01	Removing Client Files or Proprietary Information From a Firm
	New	1.400.210.02	Removing Client Files or Proprietary Information From a Firm
ET Section 391.027-.028	Use of Confidential Information on Management Consulting Service Engagements	1.400.240	Use of Confidential Information From Nonclient Sources
	New	1.400.240	Use of Confidential Information From Nonclient Sources
New		1.500.008	Unpaid Fees

ET Section 302.01	Contingent Fees	1.510.001	Contingent Fee Rule
New		1.510.005	Contingent Fee Rule - Application of the Conceptual Framework for Members in Public Practice
ET Section 302.02	Contingent Fees in tax matters	1.510.010	Tax Matters
ET Section 391.033-.034	Definition of the Receipt of a Contingent Fee or a Commission	1.510.020	Receipt of Contingent Fee
ET Section 391.037-.038	Receipt of Contingent Fees or Commissions by Member's Spouse	1.510.030	Services Performed by a Member's Spouse for a Contingent Fee
ET Section 391.049-.050	Commission and Contingent Fee Arrangements with Nonattest Client	1.510.040	Contingent Fee Arrangements with an Investment Advisory Services Nonattest Client that is Related to a Client
ET Section 391.047-.048	Investment Advisory Services	1.510.050	Investment Advisory Services
ET Section 503.01	Commissions and Referral Fees	1.520.001	Commissions and Referral Fee Rule
New		1.520.005	Commissions and Referral Fee Rule - Application of the Conceptual Framework for Members in Public Practice
ET Section 591.367-.368	Definition of the Receipt of a Contingent Fee or a Commission	1.520.020	Receipt of Commission
ET Section 591.373-.374	Receipt of Contingent Fees or Commissions by Member's Spouse	1.520.030	Services Performed by a Member's Spouse for a Commission
ET Section 591.375-.376	Referral of Products of Others	1.520.040	Referral of Products of Others
ET Section 591.383-.384	Commission and Contingent Fee Arrangements with Nonattest Client	1.520.050	Commission Arrangements with an Investment Advisory Services Nonattest Client that is Related to a Client
ET Section 591.369-.370	Sale of Products to Clients	1.520.060	Sales of Products to Clients
ET Section 591.371-.372	Billing for Subcontractor's Services	1.520.070	Billings for a Subcontractor's Services

ET Section 502.01	Advertising and other forms of solicitation	1.600.001	Advertising and Other Forms of Solicitation Rule
New		1.600.005	Advertising and Other Forms of Solicitation - Application of the Conceptual Framework for Members in Public Practice
ET Section 502.06	Engagements obtained through efforts of third parties	1.600.010.01	False, Misleading, or Deceptive Acts in Advertising or Solicitations
ET Section 502.03	False, Misleading, or Deceptive Acts in Advertising or Solicitation	1.600.010.02	False, Misleading, or Deceptive Acts in Advertising or Solicitations
ET Section 591.365-.366	Use of the AICPA Personal Financial Specialist Designation	1.600.030	Use of AICPA-Awarded Designation
ET Section 502.07	Use of CPA Credential	1.600.100	Use of the CPA Credential
ET Section 301.01	Confidential Client Information	1.700.001	Confidential Client Information Rule
New		1.700.005	Confidential Information - Application of the Conceptual Framework for Members in Public Practice
ET Section 391.011-.012	Revealing Client Information to Competitors	1.700.010	Client Competitors
ET Section 391.029-.030	Earlier Similar Management Consulting Service Study with Negative Outcome	1.700.020.01	Disclosing Information From Previous Engagements
ET Section 391.005-.006	Information to Successor Accountant About Tax Return Irregularities	1.700.020.02-.03	Disclosing Information From Previous Engagements
ET Section 391.031-.032	Disclosure of Confidential Client Information	1.700.030.01-.02	Disclosing Information to Persons or Entities Associated with Clients
ET Section 391.041-.042	Member Providing Services for Company Executives	1.700.030.03	Disclosing Information to Persons or Entities Associated with Clients

ET Section 391.001-.002	Use of a Third-Party Service Provider to Provide Professional Services to Clients or Administrative Support Services to the Member	1.700.040	Disclosing Information to a Third-Party Service Provider
ET Section 301.04	Confidential information and the purchase, sale, or merger of a practice	1.700.050	Disclosing Client Information in Connection with a Review of the Member's Practice
ET Section 391.003-.004	Disclosure of Client Information to Trade Associations	1.700.060	Disclosure of Client Information to Third Parties
ET Section 391.039-.040	Disclosure of Confidential Client Information to Professional Liability Insurance Carrier	1.700.070	Disclosing Client Information During Litigation
ET Section 391.045-.046	Disclosure of Confidential Client Information in Legal or Alternative Dispute Resolution Proceedings	1.700.070	Disclosing Client Information During Litigation
ET Section 391.035-.036	Bank Director	1.700.080	Disclosing Client Information in Director Positions
ET Section 391.013-.014	Revealing Names of Clients	1.700.090	Disclosing Client Names
New		1.700.100	Disclosing Confidential Client Information as a Result of a Subpoena or Summons
ET Section 505.01	Form of Organization and Name	1.800.001	Form of Organization and Name Rule
New		1.800.005	Form of Organization and Name - Application of Conceptual Framework for Members in Public Practice
ET Section 505.03	Application of rules of conduct to members who own a separate business	1.810.010.01-.04	Ownership of a Separate Business
ET Section 591.275-.276	Partner Having Separate Proprietorship	1.810.010.05	Ownership of a Separate Business
ET Section 591.273-.274	Nonproprietary Partners	1.810.020	Partner Designation
ET Section 591.005-.006	Employment by Non-CPA Firm	1.810.030	A Member's Responsibility for Nonmember Practitioners

ET Section 591.281-.282	Responsibility for Non-CPA Partner	1.810.030	A Member's Responsibility for Nonmember Practitioners
ET Section 591.271-.272	Audit with Former Partner	1.810.040	Attest Engagement Performed with a Former Partner
ET Section 505.04	Application of rule 505 to alternative practice structures	1.810.050	Alternative Practice Structures
ET Section 591.289-.290	Firm Name of Merged Partnerships	1.820.010	Use of a Retired Partner's Name
ET Section 591.379-.380	Non-CPA Partner	1.820.020	A Practice with Non-CPA Partners
ET Section 505.05	Misleading Firm Names	1.820.030	Misleading Firm Names
ET Section 505.06	Common Network Brand in Firm Name	1.820.040	Use of a Common Brand Name in Firm Name
New		2.000.000	Members in Business - Introduction
New		2.000.010	Conceptual Framework for Members in Business
New		2.000.020	Ethical Conflicts
ET Section 102.01	Integrity and Objectivity	2.100.001	Integrity and Objectivity Rule
New		2.100.005	Integrity and Objectivity - Application of the Conceptual Framework for Members in Business
ET Section 102.03	Conflicts of Interest	2.110.010	Conflicts of Interest
ET Section 191.226-.227	Acceptance or Offering of Gifts or Entertainment	2.120.010	Offering or Accepting Gifts or Entertainment
ET Section 102.02	Knowing misrepresentations in the preparation of financial statements or records	2.130.010	Knowing Misrepresentations in the Preparation of Financial Statements or Records
ET Section 102.05	Subordination of judgment by a member	2.130.020	Subordination of Judgment
ET Section 102.04	Obligations of a member to his or her employer's external accountant	2.130.030	Obligation of a Member to His or Her Employer's External Accountant

ET Section 102.06	Applicability of rule 102 to members performing educational services	2.140.010	Educational Services
ET Section 201.01	General Standards	2.300.001	General Standards Rule
New		2.300.005	General Standards - Application of the Conceptual Framework for Members in Business
ET Section 201.02	Competence	2.300.010	Competence
ET Section 291.019-.020	Submission of Financial Statements by a Member in Public Practice	2.300.030	Submission of Financial Statements
ET Section 202.01	Compliance with Standards	2.310.001	Compliance with Standards Rule
New		2.310.005	Compliance with Standards - Application of the Conceptual Framework for Members in Business
ET Section 203.01	Accounting Principles	2.320.001	Accounting Principles Rule
New		2.320.005	Accounting Principles - Application of the Conceptual Framework for Members in Business
ET Section 203.05	Responsibility of employees for the preparation of financial statements in conformity with GAAP	2.320.010	Responsibility for Affirming that Financial Statements Are in Conformity With the Applicable Financial Reporting Framework
ET Section 203.03	Status of FASB, GASB and FASAB interpretations	2.320.020	Status of Financial Accounting Standards Board, Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board Interpretations
ET Section 203.02	Departures from Generally Accepted Accounting Principles	2.320.030	Departures From Generally Accepted Accounting Principles

ET Section 203.06	Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other than GAAP	2.320.040	Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other than GAAP
ET Section 501.01	Acts Discreditable	2.400.001	Acts Discreditable Rule
New		2.400.005	Acts Discreditable - Application of the Conceptual Framework for Members in Business
ET Section 501.03	Discrimination and Harassment in Employment Practices	2.400.010	Discrimination and Harassment in Employment Practices
ET Section 501.07	Solicitation or disclosure of CPA examination questions and answers	2.400.020	Solicitation or Disclosure of CPA Examination Questions and Answers
ET Section 501.08	Failure to file tax returns or pay tax liability	2.400.030	Failure to File a Tax Return or Pay a Tax Liability
ET Section 501.05	Negligence in the preparation of financial statements or records	2.400.040	Negligence in the Preparation of Financial Statements or Records
ET Section 501.06	Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies	2.400.050	Governmental Bodies, Commissions, or Other Regulatory Agencies
ET Section 501.09	Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies on indemnification and limitation of liability provisions in connection with audit and other attest services	2.400.060	Indemnification and Limitation of Liability Provisions
ET Section 501.10	Confidential Information Obtained From Employment or Volunteer Activities	2.400.070	Confidential Information Obtained from Employment or Volunteer Activities
ET Section 501.11	False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services	2.400.090	False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services

ET Section 501.12	Use of CPA Credential	2.400.100	Use of the CPA Designation
New		3.000.000	Other Members - Introduction
New		3.000.030	Applicability
ET Section 501.01	Acts Discreditable	3.400.001	Acts Discreditable Rule
ET Section 501.03	Discrimination and Harassment in Employment Practices	3.400.010	Discrimination and Harassment in Employment Practices
ET Section 501.07	Solicitation or disclosure of CPA examination questions and answers	3.400.020	Solicitation or Disclosure of CPA Examination Questions and Answers
ET Section 501.08	Failure to file tax returns or pay tax liability	3.400.030	Failure to File a Tax Return or Pay a Tax Liability
ET Section 501.10	Confidential Information Obtained From Employment or Volunteer Activities	3.400.070	Confidential Information Obtained from Employment or Volunteer Activities
New		3.400.090	False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services
ET Section 501.12	Use of CPA Credential	3.400.100	Use of the CPA Credential

Neshanic Station, NJ

In consideration of the AICPA foregoing a full investigation of his alleged misconduct, CPA entered into a settlement agreement under the Joint Ethics Enforcement Program effective November 4, 2013. Under the settlement agreement, CPA was admonished by the AICPA pursuant to a settlement entered into with the New Jersey State Board of Accountancy (“Board”) related to his **failure to comply with the Board’s continuing professional education requirements** for the period January 1, 2006 through December 31, 2008.

Pittsburgh, PA

Under the automatic disciplinary provisions of the Institute’s bylaws, CPA’s AICPA membership was suspended for two years, effective October 29, 2013, in connection with disciplinary action taken by the Public Company Accounting Oversight Board. Specifically, the PCAOB barred CPA from being an associated person of a registered public accounting firm with the right to file a petition for Board consent to associate with a registered public accounting firm after two years from the date of the Order. The PCAOB’s decision was a result of its findings that **CPA violated PCAOB rules and auditing standards by creating and improperly backdating certain audit work papers in connection with a Board inspection.**

Fishers, IN

As a result of a decision by a hearing panel of the Joint Trial Board, CPA was admonished by the AICPA, effective November 20, 2013. CPA was also directed to successfully complete fifteen hours of continuing education within nine months of the effective date of the decision. CPA was **found guilty of violating AICPA Code of Professional Conduct Rule 502 – Advertising and Other Forms of Solicitation in that he failed to observe the requirements of Interpretation 502-2 False, Misleading, or Deceptive Acts in Advertising or Solicitation.** Specifically, CPA sought to obtain clients by forms of solicitation that were misleading, deceptive, and over-reaching by sending letters to former clients that contained misleading statements that would likely cause a reasonable person to misunderstand or be deceived.

Katy, TX

In lieu of an investigation of alleged violations of the Codes of Professional Conduct of the AICPA and the Texas Society of CPAs (TSCPA), CPA entered into a settlement agreement under the Joint Ethics Enforcement Program. Without admitting any misconduct, CPA, formerly of the firm Arthur Andersen LLP, was admonished by the AICPA and the TSCPA, effective July 3, 2013, as a result of his consent to the Securities and Exchange Commission (SEC) entering its January 28, 2008 Order Instituting Public Administrative Proceedings Pursuant to Rule 102(e) of the SEC’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions **in connection with CPA’s conduct on the audits of an SEC registrant for the years ending December 31, 1997 through 2001.** Without admitting or denying the SEC’s findings, CPA consented to his suspension from appearing or practicing before the SEC as an accountant with the right to request reinstatement after three years. The admonishment has no effect on CPA’s CPA license or his ability to practice public accounting.

Middletown, NJ

Under the automatic disciplinary provisions of the Institute's bylaws, CPA's AICPA membership was terminated, effective October 29, 2013, in connection with the disciplinary action taken by the New Jersey State Board of Accountancy. Specifically, the state board ordered CPA to **immediately cease and desist from the practice of public accountancy or holding himself out to be licensed as a CPA**, in the State of New Jersey, for **engaging in the unlicensed practice of public accountancy** in New Jersey.

Wilkesboro, NC

Under the automatic disciplinary provisions of the Institute's bylaws, CPA was admonished, effective October 29, 2013, in connection with the disciplinary action taken by the North Carolina State Board of CPAs. Specifically, the state board censured CPA as a result of a reprimand issued by the IRS. The IRS **reprimand was based upon the assessment of miscellaneous civil penalties imposed by the IRS** on January 2, 2011; following an IRS audit of CPA's individual income tax returns.

Phoenix, AZ

Under the automatic disciplinary provisions of the Institute's bylaws, CPA's AICPA membership was suspended, effective October 29, 2013, coincident with the duration of the suspension period imposed by the Arizona State Board of Accountancy. Specifically, the state board suspended CPA's CPA license until he receives notice that said suspension has been vacated by the Board. The state board's decision was a result of allegations that CPA had engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona; **and allegations of securities fraud for orchestrating a mortgage lending scheme that attracted hundreds of investors by making false and misleading statements about the safety and performance of the investments**.

Utica, NY

Under the automatic disciplinary provisions of the Institute's bylaws, CPA's AICPA membership was suspended for one year, effective September 5, 2013, in connection with disciplinary action taken by the New York State Education Department, Office of Professional Discipline, State Board for Public Accountancy. Specifically, the state board suspended CPA's CPA license for two years, however, said suspension was stayed, and CPA was placed on probation for two-years and directed to pay a fine. The state board's decision was a result of CPA's **failure to comply with generally accepted auditing standards involving the audit of financial statements of a school district** for the year ended June 30, 2006.

Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens — support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Johnson & Johnson

PowerPoint Slides

Real-Life Ethics for Today's Accountant

Authors:

Francis X. "Frank" Ryan, CPA, CGMA, MBA

Matthew X. "Matt" Ryan, CFE, MBA

Revised - February 2014

Copyright 2014 Matthew X. Ryan and Francis X. Ryan

Introduction

- ▶ Qualifications (Frank):
 - ▶ MBA, CPA, CGMA
 - ▶ Crisis Manager
 - ▶ Author of Series "Rebuilding America"
 - ▶ Marine Colonel (Retired)
 - ▶ Iraq and Afghanistan
 - ▶ Economic Warfare & Civil Affairs
 - ▶ Former Chairman Audit Committee
 - ▶ Public Company and Not-for-Profit
 - ▶ Public Company Board Experience
 - ▶ Chairman, Not-for-Profit Board
 - ▶ Former Congressional Candidate

2

Introduction

- ▶ Qualifications (Matt):
- ▶ Financial Services & Risk Analysis
 - ▶ Public Accounting/Internal Audit
 - ▶ Alternative Investment (Hedge Fund) Accounting
 - ▶ Strategic & Operational Risk Analysis (Manufacturing, Startups, Financially Troubled Companies, etc.)
- ▶ Pennsylvania Army National Guard
 - ▶ Captain, Company Commander for Distribution/Logistics Company
 - ▶ Operation Iraqi Freedom (2008-2009), Executive Officer & Medical Logistics Officer
- ▶ Nonprofit Board Experience
- ▶ PICPA Education Committee
- ▶ Political Committees & State Senate Candidate Treasurer
- ▶ Education & Certifications
 - ▶ MBA - The Wharton School
 - ▶ B.S. Finance - Penn State University
 - ▶ Certified Fraud Examiner

3

Course Outline

- ▶ Ethics
 - ▶ What is ethics?
 - ▶ Why study ethics?
 - ▶ Critical thinking errors
- ▶ Ethics and business
 - ▶ Code of ethics and conduct
 - ▶ Code of professional responsibility
 - ▶ AICPA codification updated
 - ▶ Subordination of judgment
 - ▶ Seminal events

4

Resources

- ▶ *Business Law: The Ethical, Global, and E-Commerce Environment* 15th Edition, Miller/Barnes/Bowers/Langvardt, 2012
- ▶ *4 Kinds of Fraud That Could Destroy Your Business* by Matt Garrett, August 2013
<http://www.entrepreneur.com/article/227689>
- ▶ AICPA Code of Professional Conduct:
<http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx>

5

Protocol

- ▶ Discussion parameters
 - ▶ Please do not interrupt one another
 - ▶ Listen to understand, not to agree
 - ▶ Criticize an opinion, not a person, if you disagree
 - ▶ Avoid giving personal information
 - ▶ Right of nonattribution of opinion
- ▶ Note: Course is not designed to give you a “correct” answer to all your ethical dilemmas. It is designed to get you to think about dilemmas you may face so you can prepare for a response.

6

What Is Ethics?

- ▶ Is it what you do when no one is looking?
- ▶ Is it never making a mistake?
- ▶ Is it your core beliefs?
- ▶ Is it society's beliefs?
- ▶ Is it something that can be taught?
- ▶ Is it something that changes over time?
- ▶ What is "it"?

<http://www.news-journalonline.com/article/20131104/NEWS/131109780#gsc.tab=0>

7

Four CPA Core Beliefs

- ▶ Integrity
- ▶ Objectivity
- ▶ Independence
- ▶ Due Care

8

What Is Ethics?

- ▶ Is it what you do when no one is looking?
- ▶ Is it never making a mistake?
- ▶ Is it your core beliefs?
- ▶ Is it society's beliefs?
- ▶ Is it something that can be taught?
- ▶ Is it something that changes over time?
- ▶ What is "it"?

9

What Is Ethics?

- ▶ Moral principles that govern a person's or group's behavior.
- ▶ The moral correctness of specified conduct.
- ▶ Moral philosophy involving the concepts of what is right and wrong.
 - ▶ Frequently tied to our religious beliefs.
 - ▶ Usually learned as a child through family and other close influences.
 - ▶ Strongly influenced by culture.

10

Why Study Ethics?

- ▶ Are we more ethical today than 100 years ago?
- ▶ Are we less ethical?
- ▶ The same?

“It is not that humans have become any more greedy than in generations past. It is that the avenues to express greed have grown enormously.”

—Alan Greenspan

11

Why Study Ethics?

- ▶ Reputation
- ▶ Business
 - ▶ Avoid public criticism, lawsuits, and prison?
 - ▶ Increase profits
 - ▶ Avoid government intervention
- ▶ Enhance critical thinking skills
 - ▶ Professional skepticism
 - ▶ Make better decisions for ourselves, our firm, and society
 - ▶ Learn from the mistakes of others

12

Why Study Ethics?



Arthur Andersen

13

Why Study Ethics?

- ▶ Reputation
 - ▶ Decades of good can be undone with a single act.
 - ▶ Inaction can be as damaging as committing the act.



“It takes many good deeds to build a good reputation, and only one to lose it.”

—Benjamin Franklin

14

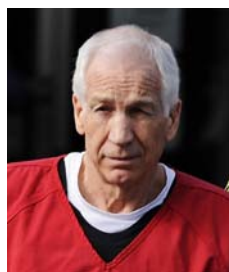


Joe Paterno

15



Joe Paterno



Jerry Sandusky

16

Why Study Ethics?

▶ Reputation

- ▶ Decades of good can be undone with a single act.
- ▶ Inaction can be as damaging as committing the act.



“It takes many good deeds to build a good reputation, and only one to lose it.”

—Benjamin Franklin

17

Why Study Ethics?

▶ Business

- ▶ Avoid public criticism, lawsuits, and prison?
- ▶ Increase profits (long-term)
- ▶ Avoid government intervention
 - ▶ Costs associated with intervention?
 - ▶ Dodd-Frank, Sarbanes-Oxley, etc.

 **BERNARD L. MADOFF**
INVESTMENT SECURITIES LLC
New York □ London



18

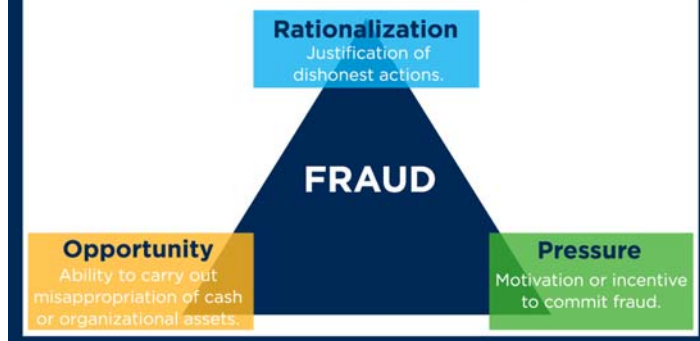
Why Study Ethics?

- ▶ Business
 - ▶ Avoid public criticism, lawsuits, and prison?
 - ▶ Increase profits (long-term)
 - ▶ Avoid government intervention
 - ▶ Costs associated with intervention?
 - ▶ Dodd-Frank, Sarbanes-Oxley, etc.



19

The Fraud Triangle



DR. DONALD CRESSEY

20

Why Study Ethics?

- ▶ Enhance critical thinking skills
 - ▶ Professional skepticism
 - ▶ Make better decisions for ourselves, our firm, and society
 - ▶ Learn from the mistakes of others

criticalthinking.org

21

Why Study Ethics?

- ▶ Western CPE video:
Bradley and Jeff
 - ▶ Professional skepticism
 - ▶ Making good decisions

22

On right:

Jeff Jackson, CPA

Executive Vice President/CFO

PGT Industries

Venice, Florida

On left:

Bradley West, CPA

Vice President/Controller

PGT Industries

Venice, Florida

Filmed at Western CPE Resort Conference, Jackson Hole, WY, July 2013 ²³

Why Study Ethics?

- ▶ Ethical decision making
 - ▶ What facts impact the decision?
 - ▶ Legal restrictions
 - ▶ Cultural influences
 - ▶ Who are the stakeholders?
 - ▶ How are each of them impacted?
 - ▶ What are possible alternatives?
- ▶ What are common errors in analyzing the above?
 - ▶ Ethical decision-making includes the ability to think critically with logic and compassion, but without bias.

24

Critical Thinking Errors

- ▶ Appeals to pity
- ▶ *Argumentum ad populum*
- ▶ *Argumentum ad hominem*
- ▶ *Reductio ad absurdum*
- ▶ Mollification
- ▶ Argument from authority
- ▶ Gambler's fallacy
- ▶ Sunk cost fallacy
- ▶ Appeals to tradition
- ▶ Appeals to the new

*Above list partially adapted from Chapter 4 in *Business Law: The Ethical, Global, and E-Commerce Environment* 15th Edition, Miller/Barnes/Bowers. Langvardt, 2012

25

Critical Thinking Errors

- ▶ Appeals to pity
 - ▶ Appeal to the compassion of society towards the "innocent"
 - ▶ The elderly, children, veterans
 - ▶ Politics and the media
 - ▶ Veterans benefits
 - ▶ Military spending
 - ▶ Education
 - ▶ Social Security/Medicare
 - ▶ Have you ever been encouraged to do something unethical because the result would aid the "innocent"?

26

Critical Thinking Errors

▶ *Argumentum ad populum*

- ▶ "Argument to the people"
- ▶ Is the majority always right?
 - ▶ "Bandwagon Fallacy"
- ▶ Ethical decisions may not be the popular decision.
 - ▶ Revenue recognition issues
 - ▶ Many energy firms in the late 1990s (including Enron) booked revenue as a merchant instead of an agent
 - ▶ Grossly inflated revenue figures
 - ▶ But energy firms did it to remain competitive

27

Critical Thinking Errors

▶ *Argumentum ad hominem*

- ▶ "Argument against the man"
- ▶ Attack the motives/qualifications of the individual, not the actual decision or point of view.
- ▶ Politics and the media
- ▶ Bethany McLean and Enron
 - ▶ McLean was a journalist for *Fortune* magazine.
 - ▶ In 2001, she questioned the valuation of Enron and how they even made money.
 - ▶ Jeff Skilling publicly attacked her as "unethical" because she had obviously "not done her research." He never addressed her actual question.

28

Critical Thinking Errors

▶ *Reductio ad absurdum*

- ▶ “Slippery Slope Fallacy”
- ▶ Politics and the media
- ▶ Marketing

▶ Mollification

- ▶ Downplaying past bad conduct or decisions by blaming problems on external circumstances.
 - ▶ “They were not ordinary times.”
 - ▶ “Everyone else was doing it.”

29

Critical Thinking Errors

▶ Argument from authority

- ▶ Related to *argumentum ad hominem*
- ▶ Position vs. qualifications vs. experience
 - ▶ Does Warren Buffett always make good investment decisions?
 - ▶ Or does his name give him leverage in today's investment negotiations? (Bank of America investment)
 - ▶ What about “The Buffett Rule”?
 - ▶ Meredith Whitney and financial projections.
- ▶ Are people with experience or in positions of authority always ethical?

30

Critical Thinking Errors

▶ Gambler's fallacy

- ▶ Independent events affect future outcomes.
- ▶ Not getting caught in the past does not mean you won't get caught in the future.
 - ▶ How long did Bernie Madoff escape questions about his investment firm?

31

Critical Thinking Errors

▶ Sunk cost fallacy

- ▶ Common in business and government projects.
- ▶ Doesn't have to be related to financial costs.
- ▶ If you made one unethical decision, do you make another to cover it up?
 - ▶ If you made a mistake with a client, how do you react?
 - ▶ Ponzi schemes

32

Critical Thinking Errors

▶ Appeals to tradition

- ▶ This is how we've always done things.
- ▶ Are traditions always ethical?
- ▶ Are the acceptable behaviors from 100 years ago still acceptable today?

▶ Appeals to the new

- ▶ It's new, it must be better.
- ▶ But what are the second and third-order effects of this "new way"? Do we know the ramifications?
 - ▶ Financial leverage and derivatives

33

CPA Guiding Principles

▶ Ethics and business

- ▶ Code of ethics and conduct
- ▶ Code of professional responsibility
- ▶ AICPA codification - updated and subordination of judgment
- ▶ Seminal events

▶ Fraud and fraud detection

34

To Whom Are We Responsible?

- ▶ Owners?
- ▶ Employees?
- ▶ Suppliers?
- ▶ Regulators?
- ▶ Ourselves?
- ▶ Public?

35

Who Is the Public?

“A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves.”

—ET Section 53 Art. II

36

AICPA Code of Professional Responsibility

"As professionals, certified public accountants perform an essential role in society. Consistent with that role, members of the American Institute of Certified Public Accountants have responsibilities to all those who use their professional services. Members also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance. The collective efforts of all members are required to maintain and enhance the traditions of the profession."

—ET Section 52 Art. 1

aicpa.org

37

Standards of Financial Ethics (Core Values)

- ▶ Independence of thought
- ▶ Objectivity
- ▶ Integrity
- ▶ Due care
- ▶ Attuned to broad business issues: future

<http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx>

38

Independence - Public Practice

“For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.”

—ET Section 55, Art. IV
39

Independence of Thought - Others

“Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice.”

—ET Section 55, Art. IV
40

Objectivity

“Objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to **be impartial, intellectually honest, and free of conflicts of interest.**”

—ET Section 55, Section IV

41

Integrity

“Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: ‘Am I doing what a person of integrity would do? Have I retained my integrity?’ Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes **subordination of judgment.**”

—ET Section 54, Art III

42

Due Care

“A member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability.”

—ET Section 56, Art. V

43

AICPA Codification

- ▶ Ethics Codification Project
 - ▶ Appendix 1: AICPA Code of Professional Conduct
 - ▶ Objective to create a more user-friendly, intuitively arranged code
 - ▶ Incorporates conceptual framework approach
 - ▶ Threats and safeguards
 - ▶ Conceptual framework applies only when no guidance in the code exists
 - ▶ One framework for members in business
 - ▶ One framework for members in public practice
 - ▶ Additional framework for independence that focuses on members in public practice who perform attest services for clients

44

AICPA Codification

- ▶ Substantive changes
 - ▶ Self-review threat
 - ▶ Ethical conflicts
 - ▶ Attest clients
 - ▶ Director positions
 - ▶ False, misleading, or deceptive acts
 - ▶ Attest engagement performed with former partner
 - ▶ Use of AICPA awarded designation

45

AICPA Codification

- ▶ New Coding
 - ▶ 0.100: Overview of Professional Conduct
 - ▶ 0.200: Structure and Application of the AICPA Code
 - ▶ 0.300: Principles of Professional Conduct
 - ▶ 0.500: Nonauthoritative Guidance
 - ▶ 0.600: New, Revised, and Pending Interpretations
 - ▶ 0.700: Deleted Standards
 - ▶ Part 1: Members in Public Practice
 - ▶ Part 2: Members in Business (Industry)
 - ▶ Part 3: Other Members

46

Causes of Ethical Dilemmas

- ▶ Western CPE video - Chris

47

Chris Torregrossa, CPA

Director, Dental Practice Group
Price Kong Co.
Phoenix, Arizona

Filmed at Western CPE Resort Conference, Scottsdale, AZ, October 2013

48

Disciplinary Actions - AICPA

- ▶ See Appendix 2 for disciplinary cases
- ▶ Names have been changed to protect those impacted by these actions.

<http://www.aicpa.org/ForThePublic/DisciplinaryActions/Pages/default.aspx>

49

CPA Vision

- ▶ Core purpose: CPAs making sense of a changing and complex world
- ▶ Vision statement: CPAs are trusted professionals who enable people and organizations to shape their future.

50

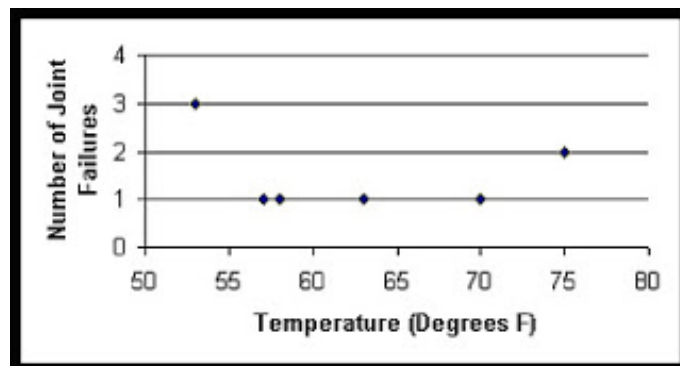
CPA Vision

- ▶ CPAs add value:
 - ▶ Communicating the total picture with clarity and objectivity
 - ▶ Translating complex information into critical knowledge
 - ▶ Anticipating and creating opportunities
 - ▶ Designing pathways than transform vision into reality

51

CPA Vision

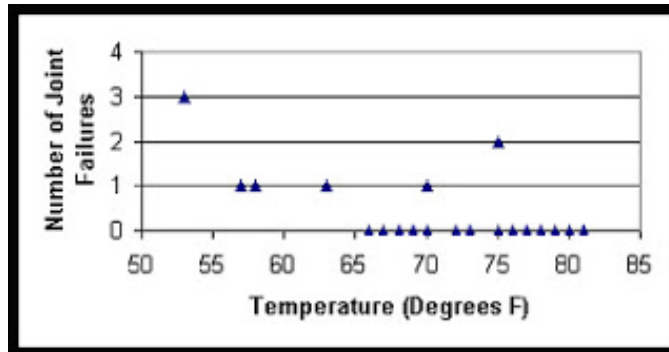
- ▶ Communicating the total picture with clarity and objectivity:



52

CPA Vision

- ▶ Communicating the total picture with clarity and objectivity



53

Top Five Core Values

- ▶ Continuing education and lifelong learning
- ▶ Competence
- ▶ Integrity
- ▶ Attuned to broad business issues
- ▶ Objectivity

54

Top Five Competencies

- ▶ Communications and leadership skills
- ▶ Strategic and critical thinking skills
- ▶ Focus on the customer, client and the market
- ▶ Interpretation of converging information
- ▶ Technologically adept

55

Dilemma

- ▶ Is there a difference between ethical conduct and legal conduct?
- ▶ Is ethical conduct the same as morality?
- ▶ Can you teach ethics?
- ▶ Can a society's boundaries of ethical behavior become distorted?
- ▶ What do you do and how should you act if society's boundaries go unchecked?

56

Seminal Event

- ▶ A seminal event is one in which your actions at the time will have a significant affect on your life.
- ▶ How you respond will materially alter the rest of your life.
- ▶ You actions can be viewed as a crossroads
- ▶ Your response will follow you your entire life.
 - ▶ Charlotte and Jonathan
 - ▶ Meghan Vogel

57

Seminal Event

- ▶ Western CPE video - Tonya

58



Tonya Winger, CPA

Broomfield, Colorado

Filmed at Western CPE Resort Conference, Colorado Springs, CO, 2013

59



Causes of Ethical Dilemmas

- ▶ Extreme fatigue
- ▶ Unwillingness to confront a dishonest person
- ▶ Need for income
- ▶ Job security
- ▶ Broad-sided - just did not see it coming
- ▶ Others?

60

What Are Our Challenges?

- ▶ Set the “tone at the top” through ethical behavior
 - ▶ Corporate Values, Credos - Appendix 3: Johnson & Johnson Credo
- ▶ Know and respect professional standards
- ▶ Understand proper disclosure and financial reporting considerations
- ▶ Know proper and value-oriented responses to ethical dilemmas
- ▶ Understand how to identify different types of fraud in the workplace and in financial statements
 - ▶ Professional skepticism

61

What Must I Do?

- ▶ Remember key reference points from code of professional responsibility
 - ▶ Responsibility is to the public
 - ▶ Independence
 - ▶ Objectivity
 - ▶ Integrity
 - ▶ Due care

62

Where to go for help?

- ▶ AICPA Ethics Hotline - 888-777-7077
 - ▶ Option 6
 - ▶ Option 2
- ▶ <http://www.aicpa.org/Pages/default.aspxState>
Association of CPA's
- ▶ Ethics Decision Tree
- ▶ www.aicpa.org/audcommctr

63

Where to Go for help?

- ▶ "There are **known knowns**; there are things we know that we know. There are **known unknowns**; that is to say, there are things that we now know we don't know. But there are also **unknown unknowns** - there are things we do not know we don't know."

—Former Defense Secretary Donald Rumsfeld

- ▶ Bottom line: there are ethical dilemmas that you may **never see coming**
- ▶ Stay connected with your fellow CPAs and professionals, ask questions/advice

64

Points to Remember

- ▶ Tone at the top affects an organization's attitudes towards ethics.
- ▶ You will be affected as a CPA by the conduct of other CPAs - responsibility for self-governance.
- ▶ How will you respond when you have a seminal event?
 - ▶ Practice how you will respond.
- ▶ Your conduct and actions will follow you your entire life - so **do the right thing.**

65

Thank you for your participation in today's program.

Francis X. "Frank" Ryan, CPA, CGMA, MBA
Semper Finance Inc.
FRYAN1951@gmail.com
717-891-2707 (cell)

Matthew X. "Matt" Ryan, CFE, MBA
mxryan@gmail.com
412-215-2983 (cell)

66

Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

Section 1

1. Bob, a CPA, is a leader of a group CPA lunch seminar. At the event another CPA, Charles, tells Bob that he is helping a client fraudulently obtain a bank loan. What is Bob's required course of action?
 - a. To keep any information confidential and tell no one.
 - b. To respect attorney-client privilege.
 - c. To report Charles to his state CPA board.
 - d. To tell Charles to desist from ethical conduct
2. Which of the following can develop professional skepticism?
 - a. Regularly completing ethics courses.
 - b. Personal development training.
 - c. Leadership skills development.
 - d. Acquisition of broad business knowledge.
3. Which critical thinking error is also known as the slippery slope fallacy?
 - a. Gambler's philosophy.
 - b. Reductio ad absurdum.
 - c. Sunk cost fallacy.
 - d. Appeal to the new.

Section 2

4. Which of the following is **NOT** currently contained in defining the principle of objectivity in the AICPA Code of Professional Conduct?
 - a. Impartial.
 - b. Conservative.
 - c. Intellectually honest.
 - d. Free of conflicts of interest.

5. How does the ethical standard for CPAs go beyond the ethical standard for lawyers?
 - a. There is a greater responsibility to the public.
 - b. There is a greater responsibility to the client.
 - c. There is a greater responsibility to regulatory agencies.
 - d. Attorney-client privilege.

6. Which of the following is **NOT** one way an ethics enforcement process is started?
 - a. A referral from the Internal Revenue Service.
 - b. Information taken from a report in the press.
 - c. Random compliance audits by state boards.
 - d. Complaints by former clients.

Section 3

7. What ethics enforcement action is used for relatively minor infractions, such as completing all 80 hours of continuing education in one year and not completing 20 hours of continuing professional education in the second year?
 - a. No action.
 - b. Letter of required corrective action.
 - c. Settlement agreement.
 - d. Trial by joint trial board.

8. Which of the following would **NOT** cause an automatic disciplinary action of suspending membership in the AICPA without a hearing?
 - a. A CPA is convicted of a crime with a mandatory 30 day jail sentence.
 - b. A CPA is convicted of not filing his own federal tax return as required by law.
 - c. A CPA is convicted of filing a fraudulent federal tax return on behalf of her client.
 - d. A CPA has his license suspended as a disciplinary measure.

9. In the CPA vision statement, CPAs translate complex information into:
 - a. Reality.
 - b. Opportunities.
 - c. The total picture.
 - d. Critical knowledge.

Section 4

10. What is a competency that has attained greater importance through the AICPA vision statement?
 - a. Industry specialization.
 - b. Communication skills.
 - c. Broad-based knowledge of taxation
 - d. Audit techniques.

11. What cause of ethical dilemmas might be created at a company when it hires vulnerable people, such as released prison inmates?
 - a. Extreme fatigue.
 - b. Unwillingness to confront a dishonest person.
 - c. Job security.
 - d. Broadsided.

12. What may **NOT** be a good source of help regarding an ethical dilemma for a CPA employed in private industry?
 - a. The AICPA Ethics Decision Tree.
 - b. The AICPA Ethics Hotline.
 - c. The company attorney.
 - d. The CPA's personal liability insurance carrier.

Review Question Answers and Rationales

Review question answer choices are accompanied by unique, logical reasoning (rationales) as to why an answer is correct or incorrect. Evaluative feedback to incorrect responses and reinforcement feedback to correct responses are both provided.

Section 1

1. Bob, a CPA, is a leader of a group CPA lunch seminar. At the event another CPA, Charles, tells Bob that he is helping a client fraudulently obtain a bank loan. What is Bob's required course of action?
 - a. To keep any information confidential and tell no one. Incorrect. Bob is ethically required to report Charles because CPAs have a responsibility for self government.
 - b. To respect attorney-client privilege. Incorrect. While communications between attorneys and clients are legally protected, communications to CPAs are not.
 - c. **To report Charles to his state CPA board. Correct. A CPA who learns of fraudulent conduct by another CPA has the ethical responsibility to report the fraudulent conduct or potentially face the same penalties as the fraud perpetrator.**
 - d. To tell Charles to desist from unethical conduct. Incorrect. Telling Charles to desist from unethical conduct is an insufficient response. Bob must report the fraudulent conduct.

2. Which of the following can develop professional skepticism?
 - a. Regularly completing ethics courses. Incorrect. The best background for a CPA in identifying items that are out of the ordinary is broad-based business knowledge.
 - b. Personal development training. Incorrect. Professional skepticism is furthered by having a greater understanding of business and transactions.
 - c. Leadership skills development. Incorrect. While leadership skills are an important competency, having a wide knowledge of business enables the CPA to spot items that are out of the ordinary.
 - d. **Acquisition of broad business knowledge. Correct. Broad business knowledge helps the CPA understand what is out of the ordinary course of business.**

3. Which critical thinking error is also known as the slippery slope fallacy?
- a. Gambler's philosophy. Incorrect. This critical thinking error suggests that independent events will affect outcomes.
 - b. Reductio ad absurdum. Correct. This critical thinking error, which shows absurdity by continuing a proposition to an extreme conclusion, is also known as the slippery slope fallacy.**
 - c. Sunk cost fallacy. Incorrect. This critical thinking error infers that once an investment is made, it should be continued.
 - d. Appeal to the new. Incorrect. This critical thinking error favors novelty even if unproven.

Section 2

4. Which of the following is **NOT** currently contained in defining the principle of objectivity in the AICPA Code of Professional Conduct?
- a. Impartial. Incorrect. Per ET Section 55, Article IV: "The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest."
 - b. Conservative. Correct. While previously CPAs are to apply standards conservatively, that language is no longer included in this principle.**
 - c. Intellectually honest. Incorrect. ET Section 55, Article IV requires CPAs to be intellectually honest and to protect the integrity of their work.
 - d. Free of conflicts of interest. Incorrect. ET Section 55, Article IV requires CPAs to be free of conflicts of interest and precludes relationships that may appear to impair a member's objectivity.
5. How does the ethical standard for CPAs go beyond the ethical standard for lawyers?
- a. There is a greater responsibility to the public. Correct. While an attorney has an ethical duty to their client and to the court, the CPA also has an ethical responsibility to the public.**
 - b. There is a greater responsibility to the client. Incorrect. Both attorneys and CPAs have a responsibility to their client.
 - c. There is a greater responsibility to regulatory agencies. Incorrect. Lawyers and CPAs both have responsibility to regulatory agencies.
 - d. Attorney-client privilege. Incorrect. CPAs have a greater ethical responsibility than attorneys because of their ethical duty to public, which attorneys do not have.

6. Which of the following is **NOT** one way an ethics enforcement process is started?
- a. A referral from the Internal Revenue Service. Incorrect. The ethics enforcement process may be started by a referral of misconduct from the IRS.
 - b. Information taken from a report in the press. Incorrect. If an article describing misconduct mentions that the perpetrator is a CPA, an investigation can be opened.
 - c. **Random compliance audits by state boards. Correct. State boards do not search randomly for ethics violations.**
 - d. Complaints by former clients Correct. An ethics enforcement process may be started by a member of the community, including a former client. However, these complaints are investigated to determine validity and may be dismissed before a formal process is started.

Section 3

7. What ethics enforcement action is used for relatively minor infractions, such as completing all 80 hours of continuing education in one year and not completing 20 hours of continuing professional education in the second year?
- a. No action. Incorrect. No action is taken only in cases where investigation determines that no ethics violation has occurred.
 - b. **Letter of required corrective action. Correct. The letter of required corrective action is used for minor infractions.**
 - c. Settlement agreement. Incorrect. A settlement agreement with the joint trial board covers serious infractions.
 - d. Trial by the joint trial board. Incorrect. A trial before the joint trial board covers serious ethics violations that could lead to license revocation.
8. Which of the following would **NOT** cause an automatic disciplinary action of suspending membership in the AICPA without a hearing?
- a. **A CPA is convicted of a crime with a mandatory 30 day jail sentence. Correct. In Joint Ethics Enforcement Program procedures, automatic disciplinary action is only imposed if a CPA is convicted of a crime punishable by imprisonment for more than one year.**
 - b. A CPA is convicted of not filing his own federal tax return as required by law. Incorrect. The willful failure to file any income tax return which he, as an individual taxpayer, is required by law to file is grounds for automatic disciplinary action.
 - c. A CPA is convicted of filing a fraudulent federal tax return on behalf of her client. Incorrect. The filing of a false or fraudulent income tax return on a client's behalf is grounds for automatic disciplinary action under Joint Ethics Enforcement Program procedures.
 - d. A CPA has his license suspended as a disciplinary measure. Incorrect. Membership in the institute is suspended without a hearing should the member's license be suspended as a disciplinary measure. However, the suspension of membership terminates upon reinstatement of the license.

9. In the CPA vision statement, CPAs translate complex information into:
- a. Reality. Incorrect. CPAs add value by designing pathways that transform vision into reality.
 - b. Opportunities. Incorrect. CPAs add value by anticipating and creating opportunities.
 - c. The total picture. Incorrect. CPAs add value by communicating the total picture.
 - d. **Critical knowledge. Correct. CPAs add value by translating complex information into critical knowledge.**

Section 4

10. What is a competency that has attained greater importance through the AICPA vision statement?
- a. Industry specialization. Incorrect. Current top competencies include communication and leadership skills, not greater specialization.
 - b. **Communication skills. Correct. Communication skills are among the top competencies because of the AICPA vision statement's emphasis on communicating with clarity.**
 - c. Broad-based knowledge of taxation. Incorrect. Broad-based business knowledge has increased in importance.
 - d. Audit techniques. Incorrect. Current top competencies include strategic and critical thinking skills.
11. What cause of ethical dilemmas might be created at a company when it hires vulnerable people, such as released prison inmates?
- a. Extreme fatigue. Incorrect. People are more likely to make careless errors when they are extremely fatigued.
 - b. Unwillingness to confront a dishonest person. Incorrect. This ethical dilemma is created when employees are afraid to confront someone who is dishonest, but a vulnerable population is more likely to fear for their job security.
 - c. **Job security. Correct. Vulnerable persons such as release prison inmates may be susceptible to ignoring ethical problems because of fear for job security.**
 - d. Broadsided. Incorrect. The way to avoid being broadsided with an ethical dilemma is to be aware and sensitive to what is happening.

12. What may **NOT** be a good source of help regarding an ethical dilemma for a CPA employed in private industry?
- a. The AICPA Ethics Decision Tree. Incorrect. The AICPA Ethics Decision Tree for CPAs in Business and Industry can help a CPA in industry solve an ethical dilemma.
 - b. The AICPA Ethics Hotline. Incorrect. The AICPA Ethics Hotline is available to AICPA members in industry and is staffed by professionals.
 - c. **The company attorney. Correct. The company attorney is representing what is best for the company, not what is best for the CPA.**
 - d. The CPA's personal liability insurance carrier. Incorrect. It is helpful to maintain personal liability insurance as the carrier's legal personnel can be a source of helpful information regarding an ethical dilemma.

Glossary

This is a glossary of key terms with definitions. Please review any terms with which you are not familiar.

Argumentum ad hominem: A *critical thinking error* consisting of rejecting an argument because of an irrelevant fact about the person presenting the argument.

Argumentum ad populum: A *critical thinking error* that concludes a proposition is true because many people believe it to be true.

Critical thinking error: Using an argument that is not rationally evaluated.

Due care: Observing technical and ethical standards of the profession while striving to improve competence and quality of services, and discharging professional responsibilities to the best of the member's ability.

Ethically required: Meeting a higher standard of conduct than the moral minimum.

Ethics: Moral principles that govern behavior.

Independence: Free of a relationship with a client that would comprise (fact) or would be perceived as compromising (appearance) the member's judgment.

Integrity: Doing what is right and just.

Legally mandated: An acceptable standard of conduct or the moral minimum—a lesser standard of conduct than the *ethically required* standard of conduct.

Letter of required corrective action: A response to lesser ethics violations that requires only compliance.

Objectivity: To be impartial, intellectually honest, and free of conflicts of interest.

Professional skepticism: Questioning that which looks out of the ordinary.

Reductio ad absurdum: A *critical thinking error* that shows an absurd result occurs from following a proposition to its extreme.

Seminal event: A critical point for ethical decision making in practice that will have a significant effect on your life.

Subordination of judgment: Accepting another's judgment on professional issues instead of determining the correct position yourself.

Index

- A**
- Admonished 3-12:55
 - AICPA Code of Professional Conduct 1-8:24
 - Appeal to pity 1-42:22
 - Appeals to the new 1-54:38
 - Appeals to tradition 1-54:37
 - Argument from authority 1:50:40
 - Argumentum ad hominem 1:45:25
 - Argumentum ad populum 1-44:20
 - Arthur Andersen 1-25:05
 - Automatic discipline 3-17:23
- B**
- Business ethics 1-27:24
- C**
- Causes of ethical dilemmas 4-27:54
 - Challenges 4-38:43
 - Code of professional responsibility 1-4:46
 - Competencies 4-6:12
 - Core beliefs 1-17:50
 - CPA Vision 3-26:07
 - Critical thinking errors 1-2:41
 - Critical thinking errors 1-41:15
 - Critical thinking.org 1-2:46
- D**
- Dishonesty 4-29:27
 - Due care 2-30:40
- E**
- Ethically required 1-8:52
 - Ethics 1-20:07
 - Ethics codification process 2-36:07
 - Ethics decision tree 2-11:53
- F**
- False advertising 3-13:28
 - Fraud triangle 1-30:16
- G**
- Gambler's fallacy 1-52:01
- H**
- Help sources 4-47:52
- I**
- Independence 2-13:47
 - Initiation of ethics enforcement process 2-46:00
 - Integrity 2-29:33
- J**
- Joint ethics enforcement process 2-44:59
 - Joint trial board 3-7:51
- L**
- Legally mandated 1-8:49
 - Letter of required corrective action 3-4:53
 - Litigation deferral option 3-2:00
- M**
- Mollification 1-49:47
 - Moral compass 1-20:29
- O**
- Objectivity 2-23:43
 - Opening letter 2-47:40
 - Orderly function of commerce 1-5:44
- P**
- Personal liability insurance 4-49:02
 - Professional skepticism 1-24:40
 - Public 2-8:26
- R**
- Reductio ad absurdum 1-46:45
 - Reportable event 1-10:34
 - Resources 1-7:47
 - Results of ethics enforcement process 3-4:41
 - Root cause analysis 3-38:39
 - Rule of trust 2-13:25
- S**
- Seminal event 1-3:53
 - Subordination of judgment 1-5:28
 - Sunk cost fallacy 1-58:26
- T**
- Triangle of trust 3-26:55
- W**
- What is ethics? 1-17:00

Qualified Assessment
Real-Life Ethics for Today's Accountant
Course # 4140620, Version 1703
Publication/Revision Date:
March 2017

Course Expiration Date

Per AICPA and NASBA Standards (S9-06), QAS Self-Study courses must include an expiration date that is *no longer than one year from the date of purchase or enrollment*.

Complete this assessment online at www.westerncpe.com and receive your certificate and results instantly!

1. Which of the following is not a core belief for a CPA?
 - a. Objectivity.
 - b. Specialization.
 - c. Due care.
 - d. Independence.

2. The case of Arthur Andersen is used in this course as an example of:
 - a. Professional skepticism.
 - b. Reputational risk.
 - c. Deductive reasoning.
 - d. Orderly function of commerce.

3. In the fraud triangle, what is another term for pressure?
 - a. Incentive.
 - b. Opportunity.
 - c. Rationalization.
 - d. Integrity.

4. When a politician attacks an opponent's personal characteristics rather than political positions, which critical thinking error is being used?
 - a. Argumentum ad populum.
 - b. A priori.
 - c. Ad nauseam.
 - d. Argumentum ad hominem.

5. A fraud perpetrator who claims “I don’t normally act that way,” is demonstrating which critical thinking error?
 - a. Justification.
 - b. Self-realization.
 - c. Mollification.
 - d. Argument from authority.

6. To whom is the CPA most responsible?
 - a. The public.
 - b. The profession.
 - c. Government regulators.
 - d. Business owners and shareholders.

7. If a CPA, who is chief financial officer of a company, finds fraudulent revenue recognition, and the board of directors audit committee does not take the allegation seriously, what is a necessary ethical action?
 - a. Report the error to law enforcement.
 - b. Seek help from other executives.
 - c. Tell the outside auditors.
 - d. Threaten to resign.

8. The chief financial officer taking a vacation with the audit partner on their account could create a conflict with the _____ of independence.
 - a. Appearance.
 - b. Fact.
 - c. Belief.
 - d. Understanding.

9. Which core value requires a CPA to maintain a level of understanding and knowledge?
 - a. Independence of thought.
 - b. Objectivity.
 - c. Integrity.
 - d. Due care

10. When is the revised Code of Professional Conduct effective?
 - a. December 1, 2014.
 - b. December 15, 2014.
 - c. January 1, 2015.
 - d. January 15, 2015.

11. Investigation by which of the following would **NOT** be a criminal matter?
 - a. Joint ethics enforcement process.
 - b. Internal Revenue Service investigation.
 - c. Securities and Exchange Commission investigation.
 - d. District attorney investigation.

12. Should a CPA who is charged in an ethics enforcement action accept the litigation deferral option if offered?
 - a. Yes, litigation may be avoided as the statute of limitations may expire.
 - b. No, as any litigation leads to disbarment.
 - c. Yes, as anything shared with the enforcement action investigators is discoverable.
 - d. No, the matter may be settled more quickly if the processes run concurrently.

13. Which of the following ethics enforcement actions has the advantage to the disciplined CPA that no public record is created?
 - a. Accepting letter of required corrective action.
 - b. Opting out of letter of required corrective action.
 - c. Settlement agreement with the Joint Trial Board.
 - d. Trial by the Joint Trial Board.

14. False and misleading advertising violates which core value?
 - a. Accountability.
 - b. Repentance.
 - c. Independence.
 - d. Due care.

15. In the CPA vision statement, CPAs deliver value by communicating the total picture with:
 - a. Brevity and conservatism.
 - b. Clarity and objectivity.
 - c. Complexity and completeness.
 - d. Simplification and exactness.

16. Why are leadership skills important in internal controls?
 - a. The segregation of duties.
 - b. The physical control of assets.
 - c. The tone at the top.
 - d. The record procedures.

17. A seminal event will have an impact:
 - a. Only on your professional life.
 - b. For a limited period of time.
 - c. In a negative way.
 - d. For the rest of your life.

18. Inherently dishonest people look for someone who has a:
 - a. Minimal religious background.
 - b. Need.
 - c. Similar appearance.
 - d. Higher salary.

19. Where would a CPA in government report ethical violations?
 - a. The Office of Inspector General.
 - b. The media.
 - c. A private attorney.
 - d. The Office of Personnel Management.

20. Where would a CPA who is an audit manager first report any concerns about ethical misconduct?
 - a. The engagement partner.
 - b. The advisory partner.
 - c. The review partner.
 - d. The senior partner.



Answer Sheet
Real-Life Ethics for Today's Accountant
Course # 4140620, Version 1703
4 CPE Credits

Date: _____

Name: _____ Phone: _____

Address: _____

City: _____ State: _____ Zip: _____

Fax: _____ E-mail*: _____

*E-mail address MUST be unique (not shared with another CPA) for Western CPE to grade your assessment

Name of purchaser (if other than person taking assessment): _____

If course was purchased as part of the **MEGA TAX LIBRARY** please include \$4/credit for grading:
VISA/MC/Discover/Amex # _____ Exp. _____

Course expires
1 Year from date
of purchase or
enrollment

Online Grading: visit www.westerncpe.com to complete your assessment online and receive your certificate of completion and results *instantly*.

- | | | | | |
|---------|---------|----------|----------|----------|
| 1. ____ | 5. ____ | 9. ____ | 13. ____ | 17. ____ |
| 2. ____ | 6. ____ | 10. ____ | 14. ____ | 18. ____ |
| 3. ____ | 7. ____ | 11. ____ | 15. ____ | 19. ____ |
| 4. ____ | 8. ____ | 12. ____ | 16. ____ | 20. ____ |



Course Evaluation
Real-Life Ethics for Today's Accountant
Course # 4140620, Version 1703

Thank you for taking the time to fill out this course and customer experience evaluation. Your responses help us to build better courses and maintain the highest levels of service. If you have comments not covered by this evaluation, or need immediate assistance, please contact us at 800.822.4194 or wcpe@westerncpe.com.

Course and Instructor Evaluation

1. Please answer the following related to the content of the course:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The stated learning objectives were met.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The course materials were accurate, relevant, and contributed to the achievement of the learning objectives.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The stated prerequisites were appropriate and sufficient.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Based on 50 minutes per credit hour, the time to take this course accurately reflects the credit hours assigned to it.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The instructor was knowledgeable and effective.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

2. Were there any questions you felt were confusing or had incorrect answers listed? If so, please give the question number and a brief description of the issue:

3. Please provide any additional comments specific to the educational content or author of this course:

4. Do you have ideas for future course topics? If so, please list them along with any known subject matter experts we might contact to develop the course:

--

Customer Experience

5. Please rate your overall experience with Western CPE:

	Unsatisfactory	Improvement Needed	Meets Expectations	Exceeds Expectations	Exceptional
If you interacted with our Customer Service team, please rate the quality of service you received.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If you purchased your course online, please rate the quality of your e-commerce experience.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
“My Account” information includes the tools necessary to access courses and track those completed.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. Please indicate the likelihood of your purchasing the listed course formats from Western CPE:

	Not at all	Not very likely	Possibly	Likely	Highly Likely
Self-Study	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Webcast OnDemand	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Live Webcast	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Resort Conference or Seminar	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. Please use the box below to provide any additional comments related to your educational experience with Western CPE.

8. If you are willing to provide a quote about this course, or Western CPE in general, that we may use in our promotional materials, please state it below. Be sure to include your name, title, city, and state.