

OMNIBUS EXPOSURE DRAFT OF THE PROFESSIONAL ETHICS DIVISION

The Professional Ethics Executive Committee (PEEC) has issued an exposure draft, dated February 28, 2011, which contains a number of important proposals for review and comment by membership and other interested parties. One proposed interpretation provides guidance on when and how the independence requirements should be applied to interests and relationships a member and a firm have with entities that are affiliated with an attest client. The proposal provides, with limited exceptions, that when a client is an entity whose financial statements are audited, reviewed, or compiled (when the member's compilation report does not disclose a lack of independence), members should apply the independence provisions of the AICPA Code of Professional Conduct (AICPA code) applicable to the client to its affiliates. The proposal outlines 10 entities that would be considered affiliates of a client.

The exposure draft also includes proposed revisions to Interpretation No. 101-11, "Modified application of Rule 101 for certain engagements to issue restricted-use reports under the Statements on Standards for Attestation Engagements," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .13). The PEEC proposes that when performing an engagement under the Statements on Standards for Attestation Engagements (SSAEs) (that is, a SSAE-only engagement), independence need only be maintained with respect to the responsible party and not the entity that engages the member in cases when the entity that engages the member is not the responsible party. It also proposes that as long as the general requirements of Interpretation No. 101-3, "Performance of nonattest services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), are met, any prohibited nonattest services provided to the responsible party that do not relate to the specific subject matter of the SSAE engagement would not impair independence.

The exposure draft also contains proposed clarifying revisions to Interpretation No. 101-3, including the incorporation of guidance contained in the Ethics Division's nonauthoritative answers to frequently asked questions regarding performance of nonattest services and clarification of the general activity (that is, prohibition) of establishing or maintaining internal controls, including performing ongoing monitoring activities for a client. Clarification is also provided on what would be considered to be a "management responsibility," and a new requirement is being proposed that would require members to evaluate the significance of any threats to independence created by

performing separate evaluations on the effectiveness of the client's internal control system.

Another proposal would revise ET section 91, *Applicability* (AICPA, *Professional Standards*), of the AICPA code so that a member would not be subject to discipline when he or she is either a member of a group engagement team or a member of a network, and a foreign component auditor or another firm in the network that is located outside of the United States is not in compliance with the AICPA code, provided the foreign component auditor or foreign network firm at a minimum is in compliance with the International Federation for Accountants International Ethics Standards Board for Accountants Code of Ethics. Members of the group engagement team, however, would still need to comply with the AICPA code.

Based on comments received on the PEEC's September 4, 2009, omnibus exposure draft containing proposed guidance regarding disclosure of confidential client information to third parties, the PEEC has revised and is re-exposing such guidance in this exposure draft. Accordingly, the exposure draft also includes additional proposed revisions to Ethics Ruling No. 2, "Distribution of Client Information to Trade Associations," of ET section 391, *Ethics Rulings on Responsibilities to Clients*, under Rule 301, *Confidential Client Information*, along with a proposed new definition of *confidential client information* under ET section 92, *Definitions* (AICPA, *Professional Standards*). The proposal acknowledges, among other things, that there may be certain information in the member's possession that should not require client consent prior to disclosure to a third party because the information is related to the member's judgments, decisions, and actions. However, to the extent this information contains client information, the PEEC concluded that the client information must be sufficiently deidentified before disclosing it to a third party unless the client has provided its written consent to have such information disclosed without deidentification.

Other proposals contained in the exposure draft include: (1) clarification of which entities should be considered public interest entities for purposes of determining the nature and extent of safeguards to be applied; (2) a proposed interpretation that would permit partners and professional employees of firms to offer their expertise by serving as adjunct faculty members at client educational institutions provided certain stipulations are met; and (3) deletion of an ethics interpretation and a number of ethics rulings that would no longer be applicable because of the revised guidance.

The purpose of this notice is to solicit comments on the exposure draft from key stakeholders and other interested parties within or affected by independence issues. To download the executive summary and exposure draft, go to

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