
EXPOSURE DRAFT

OMNIBUS PROPOSAL

AICPA PROFESSIONAL ETHICS DIVISION

INTERPRETATIONS AND DEFINITIONS

September 19, 2012

Comments are requested by November 19, 2012

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.

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September 19, 2012

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

After the exposure period is concluded, and PEEC has evaluated the comments, PEEC may decide to publish one or more of the proposed pronouncements. Once published, the pronouncements become effective on the last day of the month in which they are published in the *Journal of Accountancy*, except if otherwise stated in the pronouncements.

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 November 19, 2012. 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 at its next open meeting.

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

Sincerely,

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Proposed Revisions of Definitions

Explanation

The AICPA Professional Ethics Executive Committee (PEEC) is exposing for comment proposed revisions to the definitions of *practice of public accounting* (paragraph .29 of ET section 92, *Definitions* [AICPA, *Professional Standards*]) and *professional services* (paragraph .30 of ET section 92). Based on these revisions, PEEC also agreed to propose the deletion of the definition *holding out* from the AICPA's Code of Professional Conduct (the AICPA Code).

PEEC believes that members should be required to comply with the AICPA Code, regardless of whether they are holding out as a CPA. The current definitions of *practice of public accounting* and *professional services* require that the member be holding out as a CPA. Nine¹ of the 11 rules in the AICPA Code contain this requirement through the use of these terms. Therefore, these 9 rules only apply if a member is holding out as a CPA.

PEEC noted that many AICPA members, including those in public practice and business, choose not to hold out as CPAs. It was further noted that the AICPA allows certain individuals who are not CPAs to become members and, thus, cannot hold out as CPAs.

PEEC believes that all members should be bound by the rules of the AICPA Code, regardless of whether they hold out as CPAs. Thus, the definitions of *practice of public accounting* and *professional services* have been revised to delete the holding-out requirement.

Professional Services

The revised definition of *professional services* applies to both members in public practice and business and contains a list of noninclusive services that describe the types of services that would be considered professional services. Accordingly, the definition includes examples of services provided by members in public practice, as well as those in business. The definition specifically states that services include those “requiring accountancy or related skills but not limited to” Thus, the definition requires professional judgment in its application and can be interpreted broadly to include a vast number of services related to the accounting profession. It should be noted that the previous definition was also broad because it included all services performed while holding out as a CPA. The difference lies in the fact that the revised definition provides some examples of what may be included in such services while removing the holding-out requirement.

Public Practice

The term *practice of public accounting* has been replaced by *public practice*. This revision was agreed upon due to the fact that Rules 101, *Independence*; 301, *Confidential Client Information*; 302, *Contingent Fees*; 502, *Advertising and Other Forms of Solicitation*; and 503, *Commissions and Referral Fees* (AICPA, *Professional Standards*), contain the phrase “A member in public

¹ Rules 101, *Independence*; 102, *Integrity and Objectivity*; 201, *General Standards*; 202, *Compliance With Standards*; 301, *Confidential Client Information*; 302, *Contingent Fees*; 502, *Advertising and Other Forms of Solicitation*; 503, *Commissions and Referral Fees*; and 505, *Form of Organization and Name* (AICPA, *Professional Standards*).

practice” Therefore changing the term to *public practice* would ensure the defined term is more consistent with the majority of the rules. The change in terminology also better aligns the AICPA Code with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the majority of state boards of accountancy. Finally, PEEC agreed that the term *public practice* was broader in that it does not contain the term *accounting*. Therefore, it does not appear to be limited strictly to accounting services in the traditional sense.

The definition of *public practice* was revised to be a subset of the definition of *professional services*. Rather than provide a list of services that comprise public practice in both the definitions of *public practice* and *professional services*, PEEC agreed to include a noninclusive list of services within the definition of *professional services* and limit the definition of *public practice* to professional services that are performed for clients. The proposed revised definition does not include a requirement to hold out; thus, the definition would apply to a greater number of members in public practice.

Holding Out

Due to the fact that the holding-out requirement would be removed from the revised definitions previously noted, PEEC agreed to delete the definition of *holding out* from the AICPA Code because it was no longer applicable.

Conforming Changes

As a result of the change in terminology from *practice of public accounting* to *public practice*, PEEC is proposing a number of conforming changes to the AICPA Code where the term *practice of public accounting* is currently used.

Text of Proposed Revised Definition of Paragraphs .29–.30 of ET Section 92

(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)

.29 Public practice (also referred to as the pPractice of public accounting). ~~The Public practice of public accounting consists of the performance of professional services for a client, by a member or a member's firm, while holding out as CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council. Such standards include Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC), Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Consulting Services, Statements of Governmental Accounting Standards, International Financial Reporting Standards and International Accounting Standards, Statements on Standards for Attestation Engagements and Statements on Standards for Valuation Services.~~

~~However, a member or a member's firm, while holding out as CPA(s), is not considered to be in the practice of public accounting if the member or the member's firm does not perform, for any client, any of the professional services described in the preceding paragraph.~~

.30 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, tax, bookkeeping, management consulting, financial management services, corporate governance, personal financial planning, litigation support services, educational services, and services for which standards are promulgated by bodies designated by Council* ~~while holding out as a CPA.~~

Text of Proposed Deletion of Paragraph .12 of ET Section 92

.12 Holding out. In general, any action initiated by a member that informs others of his or her status as a CPA or AICPA-accredited specialist constitutes holding out as a CPA. This would include, for example, any oral or written representation to another regarding CPA status, use of the CPA designation on business cards or letterhead, the display of a certificate evidencing a member's CPA designation, or listing as a CPA in local telephone directories.

Proposed Conforming Change to the Definition of *Client* for Proposed Revised Definition of the *Practice of Public Accounting*

Text of Proposed Conforming Change to Paragraph .03 of ET Section 92

(Additions appear in ***boldface italic***, and deletions are ~~stricken~~.)

.03 Client. A client is any person or entity, other than the member's employer, that engages a member or a member's firm to perform professional services or a person or entity with respect to which professional services are performed. For purposes of this paragraph, the term "*employer*" does not include the following:

- a. Entities engaged in ~~the~~ ***public*** practice of ~~public accounting~~; or
- b. Federal, state, and local governments or component units thereof, provided the member performing professional services with respect to those entities ***is***
 - i. ~~is~~ directly elected by voters of the government or component unit thereof with respect to which professional services are performed; or
 - ii. ~~is~~ an individual who is (~~a~~) appointed by a legislative body and (~~b~~) subject to removal by a legislative body; or
 - iii. ~~is~~ 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.

Proposed Conforming Change to ET Section 91 for Proposed Revised Definition of the *Practice of Public Accounting*

Text of Proposed Conforming Change to ET Section 91

(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)

ET Section 91, *Applicability*

As adopted January 12, 1988, unless otherwise indicated

.01 The bylaws of the AICPA require that members adhere to the rules of the Code of Professional Conduct. Members must be prepared to justify departures from these rules.

.02 *Interpretation addressing the applicability of the AICPA Code of Professional Conduct.* For purposes of the applicability section of the code, a “*member*” is a member, **an** associated member, or **an** international associate of the AICPA [sec. 92 par. .21].

1. The rules of conduct that follow 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 accord 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 ~~U.S. United States~~ practices were followed, the member must comply with the requirements of Rules 202, *Compliance With Standards* [sec. 202 par. .01], and 203, *Accounting Principles* [sec. 203 par. .01].
 - c. a member who is a member of a group engagement team (see the clarified SAS *Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors]*) will not be subject to discipline if a foreign component auditor (accountant) departed from any of the ethics requirements 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 herein.
 - d. a member who is a member of a network firm (as defined in paragraph .24 of section 92, *Definitions*) will not be subject to discipline if a firm within the network (as defined in section 92 paragraph .23) that is located outside the United States (foreign network firm) departed from any of the ethics requirements stated herein, as long as the foreign network firm’s conduct, at a minimum, is in accord with the ethics and independence requirements set forth in the IESBA’s Code of Ethics for Professional Accountants.

2. 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~~^{which}, 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 the *public* practice of ~~public accounting~~ whom the member has the authority or capacity to control.
3. A *member* (as defined in section 92 paragraph .21) or a *covered member* (as defined in section 92 paragraph .07) may be considered to have his or her independence impaired, with respect to a client, as the result of the actions or relationships of certain persons or entities, as described in Rule 101, *Independence* [sec. 101 par. .01], and its interpretations and rulings, whom the member or covered member does not have the authority or capacity to control. Therefore, nothing in this section should lead one to conclude that the member's or covered member's independence is not impaired solely because of his or her inability to control the actions or relationships of such persons or entities.

Proposed Conforming Change to the Definition of *Firm* for Proposed Revised Definition of the *Practice of Public Accounting*

Text of Proposed Conforming Change to Paragraph .11 of ET Section 92

(Additions appear in boldface italic, and deletions are stricken.)

.11 Firm. A firm is a form of organization permitted by law or regulation whose characteristics conform to resolutions of the council of the AICPA and that is engaged in ~~the~~***public*** practice of ~~public accounting~~. *Firm* includes the individual partners thereof except for purposes of applying Rule 101 [sec. 101 par. .01]. For purposes of applying Rule 101, *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 defined by professional standards.

Proposed Conforming Change to Interpretation No. 101-17 for Proposed Revised Definition of the *Practice of Public Accounting*

Text of Proposed Conforming Change to Interpretation No. 101-17 (in Part)

*(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)*

General

To enhance their capabilities to provide professional services, firms frequently join larger groups *that*, ~~which~~ typically are membership associations that are separate legal entities that are otherwise unrelated to their members. The associations facilitate their members' use of association services and resources; they do not themselves typically engage in *public* ~~the~~ practice of ~~public accounting~~ or provide professional services to their members' clients or to other third parties. 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. However, an association would be considered a network under this interpretation if one or more additional characteristics of a network are shared, in addition to cooperation among member firms [paragraph .234 of ET section 92]. These additional characteristics are discussed further in this interpretation.

Proposed Conforming Change to Footnote 1 of Interpretation No. 102-4 for Proposed Revised Definition of the *Practice of Public Accounting*

Text of Proposed Conforming Change to Footnote 1 of Interpretation No. 102-4

(Additions appear in boldface italic, and deletions are stricken.)

1 A member in ~~the~~ ***public*** practice of ~~public accounting~~ should refer to the Statements on Auditing Standards (*SASs*). For example, see SAS No. 22, *Planning and Supervision* [AU section 311], ~~which~~ ***that*** discusses what the auditor should do when there are differences of opinion concerning accounting and auditing standards.

Proposed Conforming Change to Interpretation No. 505-2 for Proposed Revised Definition of the *Practice of Public Accounting*

Text of Proposed Conforming Change to Interpretation No. 505

*(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)*

A member in ~~the~~ ***public*** practice of ~~public accounting~~ may own an interest in a separate business that performs for clients any of the professional services of accounting, tax, personal financial planning, litigation support services, and those services for which standards are promulgated by bodies designated by council (see paragraph .06 in ET section 92, *Definitions*). If the member, individually or collectively with his or her firm or ~~with~~ members of his or her firm, controls the separate business (as defined by in Financial Accounting Standards Board *Accounting Standards Codification* 810, *Consolidation*), the entity and all its owners (including the member) and employees must comply with all ~~of~~ the provisions of the Code of Professional Conduct. For example, in applying Rule 503, *Commissions and Referral Fees* [ET sec. 503 par. .01], if one or more members individually or collectively can control the separate business, such business would be subject to Rule 503 [ET sec. 503 par. .01], its interpretations, and rulings. With respect to an attest client, Rule 101, *Independence* [ET sec. 101 par. .01] and all its interpretations and rulings would apply to the separate business, its owners, and employees.

If the member, individually or collectively with his or her firm or ~~with~~ members of his or her firm, does not control the separate business, the provisions of the code would apply to the member for his or her actions but not apply to the entity, its other owners, and employees. For example, the entity could enter into a contingent fee arrangement with an attest client of the member or accept commissions for the referral of products or services to such attest client.

Proposed New Definition of *Partner Equivalent* Under ET Section 92

Explanation

PEEC is exposing for comment a proposed new definition of *partner equivalent* under ET section 92 of the AICPA Code. The intent of the definition is to capture members who are acting in a partner capacity with respect to attest engagements but are not *partners*, as defined under ET section 92 of the AICPA Code. Currently, paragraph .27 of ET section 92 defines a *partner* as “a proprietor, shareholder, equity or non-equity partner or any individual who assumes the risks and benefits of ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned.”

Authority to Bind the Firm With Respect to Attest Engagements

The proposed new definition includes individuals with the authority to bind the firm with respect to attest engagements without partner approval. Paragraph .13 of Statement on Quality Control Standards No. 8, *A Firm’s System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10), defines a *partner* as “[a]ny individual with authority to bind the firm with respect to the performance of a professional service engagement.” PEEC believes that having the authority to bind the firm to a professional service engagement is a partner capacity and that individuals with such authority are equivalent to a partner. However, PEEC also believes that individuals with such authority over attest engagements have a significantly higher risk of influence over attest engagements compared with those with such authority only with respect to nonattest services. Only members with such authority with respect to attest engagements are included in the proposed new definition.

PEEC believes a member is not acting in a partner capacity if a partner approves the binding of the firm by the member. The definition excludes members who have the authority to bind the firm with respect to attest engagements if that authority is subject to partner approval.

Ultimate Responsibility for Attest Engagements

The proposed new definition includes individuals with the ultimate responsibility for an attest engagement, including the authority to issue a report without partner approval. Appendix B, “Council Resolution Concerning Rule 505—Form of Organization and Name,” of the AICPA Code requires firms to have a CPA who has ultimate responsibility for engagements performed under Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, or Statements on Standards for Attestation Engagements, including audit, review, and compilation services. Nonowner CPAs with ultimate responsibility for such engagements may not qualify as a partner under the extant AICPA Code. PEEC believes that taking ultimate responsibility for an engagement is a partner capacity. The proposed new definition includes nonpartners who accept ultimate responsibility for an attest engagement.

PEEC noted that the IESBA Code does not define a *partner* but defines an *engagement partner* as one who is responsible for an engagement and its performance and for the report issued on behalf of the firm. PEEC believes that being responsible for the report is a partner capacity and inclusive in having ultimate responsibility for the engagement. The proposed new definition

notes that this responsibility is included in having ultimate responsibility for the engagement. However, PEEC also believes that individuals with ultimate responsibility for attest engagements have a significantly higher risk of influence over attest engagements compared with those with such authority only with respect to nonattest engagements. Only members with responsibility for attest engagements are included in the proposed new definition.

PEEC believes a member is not acting in a partner capacity if a partner's ultimate responsibility on an engagement is subject to partner approval. The definition excludes members whose responsibility for an attest engagement is subject to partner approval.

Effective Date

The new definition of *partner equivalent* would be effective for engagements covering periods beginning on or after December 15, 2014.

Text of Proposed New Definition

Partner equivalent. A partner equivalent is a professional employee of the firm who has the authority to bind the firm with respect to an attest engagement without partner approval or has the ultimate responsibility for an attest engagement, including the authority to issue or authorize others to issue an attest report on behalf of the firm without partner approval, but is not a *partner*, as defined in paragraph .27. Firms may use different titles to refer to individuals with this authority, although a title is not determinative of a partner equivalent.

This definition is solely for the purpose of applying Rule 101 and its interpretations and rulings and should not be used or relied upon in any other context.

Proposed Revised Definition of *Covered Member*, Under ET Section 92

Explanation

PEEC is exposing for comment a proposed revision to the definition of *covered member* under ET section 92 of the AICPA Code. The intent of the revision is to ensure that partner equivalents are subject to the same independence requirements as partners. PEEC has noted a trend toward firms delegating some partner responsibilities to partner equivalents and applying various titles other than “partner.” Under extant rules, if these partner equivalents are not otherwise covered members, they are subject to less restrictive independence requirements than partners. PEEC believes that partner equivalents should be subject to the same independence requirements.

The AICPA Code applies independence requirements to two basic groups: covered members and noncovered members. Under extant rules, partners who are covered members are subject to more restrictive independence requirements than partners who are not covered members. In situations when a firm is delegating partner authorities to nonpartners, the nonpartner may be acting in a partner capacity while not subject to the same independence rules as a partner. The proposed revised definition applies the independence requirements of partners who are covered members to partner equivalents by including the phrase *partner equivalents* in paragraphs (c) and (d) of the definition of *covered member*.

Effective Date

The revised definition of *covered member* would be effective for engagements covering periods beginning on or after December 15, 2014.

Text of Proposed Revised Definition

(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)

.07 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 (as defined in Financial Accounting Standards Board [FASB] *Accounting Standards Codification* [ASC] 810, *Consolidation*) by any of the individuals or entities described in (a)–(e) or two or more such individuals or entities if they act together.

Proposed Revised Definition of *Manager* Under ET Section 92

Explanation

PEEC is exposing for comment a proposed revision to the definition of *manager* under ET section 92 of the AICPA Code. The intent is to clarify the definition of *manager* pursuant to the proposed new definition of *partner equivalents*. The proposed new definition of *partner equivalents* states that an individual is not a partner equivalent if partner approval is required in exercising the partner equivalent authorities. In effect, partner approval of these authorities is necessary to remain a nonpartner for independence purposes. The current definition of *manager* implies that a manager can determine that an engagement is complete without partner approval if such approval is not required. PEEC believes this authority is that of a partner equivalent if partner approval is not required, and the authority should be deleted from the definition of *manager*.

Effective Date

The revised definition of *manager* would be effective for engagements covering periods beginning on or after December 15, 2014.

Text of Proposed Revised Definition

(Additions appear in boldface italic, and deletions are stricken.)

.20 Manager. A manager is a professional employee of the firm who has ~~either of the following~~ **responsibilities:**

- ~~a.~~ **C**ontinuing responsibility for the ~~overall~~ planning and supervision of engagements for specified clients.
- ~~b.~~ Authority to determine that an engagement is complete ~~subject to final partner approval if required.~~

Proposed Revision to ET Section 100-1

Explanation

PEEC is exposing for comment revisions to ET section 100-1, *Conceptual Framework for AICPA Independence Standards* (AICPA, *Professional Standards*). The intent of the revisions is to appropriately apply ET section 100-1 to partner equivalents. PEEC determined that partners and partner equivalents should be subject to the same independence requirements, including when members are using ET section 100-1 to evaluate threats to independence.

Effective Date

The revisions to ET section 100-1 would be effective for engagements covering periods beginning on or after December 15, 2014.

Text of Proposed Revision

(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)

ET 100-1, *Conceptual Framework for AICPA Independence Standards* (in Part)

.16 Familiarity threat—Members having a close or longstanding relationship with an attest client or knowing individuals or entities (including by reputation) who performed nonattest services for the client.

- a. A member of the attest engagement team whose spouse is in a key position at the client, such as the client's chief executive officer
- b. A partner **or partner equivalent** of the firm who has provided the client with attest services for a prolonged period
- c. A member who performs insufficient audit procedures when reviewing the results of a nonattest service because the service was performed by the member's firm
- d. A member of the firm having recently been a director or **an** officer of the client
- e. A member of the attest engagement team whose close friend is in a key position at the client

.26 Examples of safeguards implemented by the firm

- a. Firm leadership that stresses the importance of independence and the expectation that members of attest engagement teams will act in the public interest
- b. Policies and procedures that are designed to implement and monitor quality control in attest engagements
- c. Documented independence policies regarding the identification of threats to independence, the evaluation of the significance of those threats, and the identification and application of safeguards that can eliminate the threats or reduce them to an acceptable level
- d. Internal policies and procedures that are designed to monitor compliance with the firm's independence 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 attest clients
- f. The use of different partners, **partner equivalents**, and engagement teams that have separate reporting lines in the delivery of permitted nonattest services to an attest client, particularly when the separation between reporting lines is significant
- 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, ~~or partner's~~, **or partner equivalent's** reliance on revenue from a single client and, 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 of 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 communications with audit committees or others charged with client governance
- n. Discussing independence 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 an attest client or (~~ii~~) otherwise advises the attest engagement team. (This individual could be someone from outside the firm or someone from within the firm who is not otherwise associated with the attest 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 attest engagement team
- s. Policies and procedures that are designed to ensure that members of the attest engagement team do not make or assume responsibility for management decisions for the attest client
- t. The involvement of another firm to perform part of the attest 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
- w. A consultation function that is staffed with experts in accounting, auditing, independence, and reporting matters who can help attest 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 independence
- y. Policies that preclude audit partners *or partner equivalents* from being directly compensated for selling nonattest services to the audit client

Proposed Revision to the “Application of the Independence Rules to Close Relatives” Section of Interpretation No. 101-1

Explanation

PEEC is exposing for comment a proposed revision to the “Application of the Independence Rules to Close Relatives” section of Interpretation No. 101-1, “Interpretation of Rule 101,” under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .02). The intent of the revision is to maintain consistency with the revision to the definition of *covered member* and to appropriately apply the independence requirements of partners to partner equivalents. Three specific categories of covered members are addressed in the requirements for close relatives: individuals on the attest engagement team, individuals in a position to influence the attest engagement, and any partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement. PEEC inserted the term *partner equivalents* when guidance is currently only applicable to partners.

Effective Date

The revision to the “Application of the Independence Rules to Close Relatives” section of Interpretation No. 101-1 would be effective for engagements covering periods beginning on or after December 15, 2014.

Text of Proposed Revision

(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)

.02 Interpretation 101-1—Interpretation of Rule 101 (in Part)

Application of the Independence Rules to Close Relatives

Independence would be considered to be impaired if—

1. ~~An~~ individual participating on the attest engagement team has a **close relative** who had
 - a. ~~A~~ key position with the client; or
 - b. ~~A~~ financial interest in the client that
 - i. ~~The~~ individual knows or has reason to believe was material to the close relative; or
 - ii. ~~En~~abled the close relative to exercise **significant influence** over the client.
2. 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 had
 - a. ~~A~~ key position with the client; or
 - b. ~~A~~ financial interest in the client that
 - i. ~~The~~ individual, ~~or~~ partner, **or partner equivalent** knows or has reason to believe was material to the close relative; ~~and~~
 - ii. ~~En~~abled the close relative to exercise significant influence over the client.

Proposed Revision to the Interpretation No. 101-11

Explanation

PEEC is exposing for comment a proposed revision to Interpretation No. 101-11, “Modified Application of Rule 101 for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements,” under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .13). The intent of the revision is to apply independence requirements of partners on agreed-upon procedures (AUP) engagements to partner equivalents on AUP engagements. The AICPA Code requires individuals who directly supervise or manage the AUP engagement partner to be independent of the responsible party(ies) in an AUP engagement. The proposed revision provides that partner equivalents acting as engagement partners are treated similarly to AUP engagement partners in applying Rule 101 to AUP engagements.

Effective Date

The revision to Interpretation No. 101-11 would be effective for engagements covering periods beginning on or after December 15, 2014.

Text of Proposed Revision

(Additions appear in **boldface italic**, and deletions are ~~stricken~~.)

.13 101-11—Modified Application of Rule 101 for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements (in Part)

AUP Engagements

When performing an AUP engagement under the SSAEs, only the following covered members and their immediate families are required to be independent with respect to the responsible party(ies), in accordance with Rule 101:

- Individuals participating on the AUP engagement team
- Individuals who directly supervise or manage the AUP engagement partner ***or partner equivalent***
- Individuals who consult with the attest engagement team regarding technical or industry-related issues specific to the AUP engagement

In addition, independence would be impaired if the firm had a financial relationship covered by item (A) of Interpretation 101-1 [sec. 101 par. .02] with the responsible party(ies) that was material to the firm.

Independence will not be impaired if the general requirements of Interpretation No. 101-3 [sec. 101 par. .05] are not met when the member is also providing nonattest services, unless such services relate to the specific subject matter of the AUP engagement.