

Professional Ethics Executive Committee approves sample client disclosure language for new outsourcing rules

June 3, 2005

In anticipation of the July 1, 2005 effective date of the recently adopted Outsourcing rules, the AICPA Professional Ethics Executive Committee (PEEC) has developed sample language which could be used to fulfill the requirement of Ethics Ruling No. 112 - *Use of a Third-Party Service Provider to Assist a Member in Providing Professional Services*, in cases where the member chooses to provide written disclosure. While Ethics Ruling No. 112 does not require that the disclosure be in writing, the PEEC recognizes that some may choose to provide written disclosure to the client in fulfilling the requirements of the rules. Please note that the following is for illustrative purposes only, and members should ensure that any final language, complies with their firm's policies and procedures and applicable laws and regulations including the rules of other regulatory bodies such as state boards of accountancy, Securities and Exchange Commission (SEC), General Accountability Office (GAO), etc.

The firm may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, the firm will remain responsible for the work provided by any such third-party service providers.

Highlights of the ethics rulings as adopted by the PEEC in October 2004 are as follows:

- ◆ The new ethics ruling under Rule 102, *Integrity and Objectivity*, requires that, prior to sharing confidential client information with the service provider, a member inform the client, preferably in writing, that he or she may be using a third-party service provider when providing professional services (this provision does not apply to third-party service providers used only to provide administrative support services such as record storage, software application hosting and authorized e-file tax transmittal services to the client.)
- ◆ A new ethics ruling under Rule 201, *General Standards*, and Rule 202, *Compliance With Standards*, clarifies the application of rules 201 and 202 to members who use a third-party service provider in providing professional services to clients, and makes clear the

committee's position that the member is responsible for all work performed by the service provider.

- ◆ Revision to existing Ethics Ruling No. 1 under Rule 301, *Confidential Client Information* which updates and broadens the application of the ethics ruling beyond that of an outside tax service bureau and makes it applicable to any third-party service provider used by the member, including those who provide only administrative support services. While not requiring specific client consent prior to disclosing confidential client information to a third-party service provider, the ruling does require a member to enter into a contractual agreement with the third-party service provider to maintain the confidentiality of the client's information, and requires that members be reasonably assured that the third-party service provider has appropriate procedures in place to prevent the unauthorized release of confidential client information.
- ◆ The provisions of these ethics ruling are effective for all professional services performed on or after July 1, 2005, except for professional services performed pursuant to agreements in existence on June 30, 2005 that are completed by December 31, 2005.

The standards available at: http://www.aicpa.org/download/ethics/2004_1028_outsourcing.pdf

The Background and Basis for Conclusions are available at:
http://www.aicpa.org/download/ethics/Outsourcing_Basis.pdf