

**THE NEW AND REVISED INTERPRETATIONS CONTAINED IN THIS DOCUMENT ARE EFFECTIVE ON OCTOBER 31, 2016 UNLESS OTHERWISE NOTED. THE TECHNICAL CORRECTIONS ARE EFFECTIVE IMMEDIATELY.**

*Ethics interpretations are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication in the Journal of Accountancy constitutes notice to members. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing.*

The Professional Ethics Executive Committee (PEEC) has adopted the following:

- New interpretation “Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice” (ET sec. 1.400.205)<sup>1</sup> under the “Acts Discreditable Rule” (ET sec. 1.400.001)
- New interpretation “Disclosure of Commissions and Referral Fees” (ET sec. 1.520.080) under the “Commissions and Referral Fees Rule” (ET sec. 1.520.001).
- Revised interpretation “Disclosing Client Information in Connection With a Review **or Acquisition** of the Member’s Practice” (ET sec. 1.700.050) under the “Confidential Client Information Rule” (ET sec. 1.700.001)

Additionally, PEEC has added cross references to a nonauthoritative question and answer to the “Compliance with Standards Rule” (ET sec. 1.310.001 and 2.310.001) and made a technical correction to the “Conflicts of Interest for Members in Public Practice” interpretation under the “Integrity and Objectivity Rule” (ET sec. 1.110.010).

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<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.

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**Text of New “Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice” Interpretation**  
(*Defined terms are hyperlinked and italicized.*)

**1.400.205 Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice**

***Sale or Transfer of Member’s Practice***

.01 A [member](#) or [member’s firm](#) (member) that sells or transfers all or part of the member’s practice to another person, [firm](#), or entity (successor firm) and will no longer retain any ownership in the practice should do all of the following:

- a. Submit a written request to each [client](#) subject to the sale or transfer, requesting the [client’s](#) consent to transfer its files to the successor firm and, notify the [client](#) that its consent may be presumed if it does not respond to the member’s request within a period of not less than 90 days, unless prohibited by law, including but not limited to the rules and regulations of the applicable state boards of accountancy. The member should not transfer any [client](#) files to the successor firm until either the [client’s](#) consent is obtained or the 90 days has lapsed, whichever is shorter. The member is encouraged to retain evidence of consent, whether obtained from the [client](#) or presumed after 90 days.
- b. With respect to files not subject to the sale or transfer, make arrangements to return any [client](#) records that the member is required to provide to the [client](#) as set forth in the “[Records Request](#)” interpretation [1.400.200] unless the member and [client](#) agree to some other arrangement.

.02 In cases in which the member is unable to contact the [client](#), [client](#) files and records not transferred should be retained in a confidential manner and in accordance with the [firm’s](#) record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.

***Discontinuance of Member’s Practice***

.03 A member who discontinues his or her practice but does not sell or transfer the practice to a successor firm, should do all of the following:

- a. Notify each [client](#) in writing of the discontinuance of the practice. The member is encouraged to retain evidence of notification made to [clients](#). The member is not required to provide notification to former [clients](#) of the [firm](#).
- b. Make arrangements to return any [client](#) records that the member is required to provide to the [client](#) as set forth in the “[Records Request](#)” interpretation [1.400.200] unless the member and [client](#) agree to some other arrangement.

.04 In cases in which the member is unable to contact the [client](#), [client](#) files should be retained in a confidential manner and in accordance with the [firm’s](#) record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.

***Acquisition of Practice by a Member***

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.05 A member who acquires all or part of a practice from another person, [firm](#), or entity (predecessor firm) should be satisfied that all [clients](#) of the predecessor firm subject to the acquisition have, as required in paragraph .01, consented to the member's continuation of [professional services](#) and retention of any [client](#) files or records the successor firm retains.

.06 A member will be considered in violation of the "[Acts Discreditable Rule](#)" [1.400.001] if the member does not comply with any of the requirements of this interpretation.

***Effective Date***

.07 This interpretation is effective June 30, 2017. Early implementation is allowed.

Nonauthoritative questions and answers related to form of communication and transfer of client files to another partner in the firm are available in the FAQ document at <a href="http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf">www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf</a> .
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**Text of Revised “Disclosing Client Information in Connection With a Review or Acquisition of the Member’s Practice” Interpretation**  
*(Defined terms are hyperlinked and italicized.)*

[Additions appear in bold italic and deletions are stricken]

**1.700.050 Disclosing Client Information in Connection With a Review or Acquisition of the Member’s Practice**

- .01 For purposes of the “[Confidential Client Information Rule](#)” [1.700.001], 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 ~~shall~~ **should** 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]
- .03 ***[Members](#) who obtain [client](#) files as the result of acquiring all or part of another [member’s](#) professional practice should not disclose any [confidential client information](#) contained in such files. [Members](#) should refer to the “Transfer of Files and Return of Client Records in Sale, Transfer Discontinuance or Acquisition of a Practice” interpretation under the “Acts Discreditable Rule” [1.400.205] for guidance related to [client](#) files obtained through acquiring a practice.***

[See [Revision History Table](#)]

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**Text of New “Disclosure of a Commissions and Referral Fees” Interpretation**  
*(Defined terms are hyperlinked and italicized.)*

**1.520.080 Disclosure of Commissions and Referral Fees**

.01 The member should make the disclosures required by paragraphs .03 and .04 of the “Commissions and Referral Fees Rule” [1.520.001] in writing.

***Effective Date***

.02 Effective for commission or a referral fee arrangements entered into on or after January 31, 2017.



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## Text of Revised “Compliance With Standards Rules”

[Additions appear *in bold italic*]

### 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*.
- .02 See [appendix A](#) “*Council* Resolution Designating Bodies to Promulgate Technical Standards.” [Prior reference: paragraph .01 of ET section 202]

***A nonauthoritative question and answer regarding use of standards that have not been established by a body designated by AICPA Council is available in the FAQ at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf).***

### 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]

***A nonauthoritative question and answer regarding use of standards that have not been established by a body designated by AICPA Council is available in the FAQ at [www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Ethics-General-FAQs.pdf).***

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## Technical Correction to Paragraph .04 of the Conflicts of Interest for Members in Public Practice Interpretation

### Edits To Be Made in the October 2016 Update

#### (Additions Appear In Bold Italics)

- .04 The following are examples of situations in which conflicts of interest may arise:
- a. Providing corporate finance services to a *client* seeking to acquire an audit *client* of the *firm*, when the *firm* has obtained confidential information during the course of the audit that may be relevant to the transaction
  - b. Advising two *clients* at the same time who are competing to acquire the same company when the advice might be relevant to the parties' competitive positions
  - c. Providing services to both a vendor and a purchaser who are *clients* of the *firm* in relation to the same transaction
  - d. Preparing valuations of assets for two *clients* who are in an adversarial position with respect to the same assets
  - e. Representing two *clients* at the same time regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership
  - f. Providing a report for a licensor on royalties due under a license agreement while at the same time advising the licensee of the correctness of the amounts payable under the same license agreement
  - g. Advising a *client* to invest in a business in which, for example, the *immediate family* member of the *member* has a *financial interest* in the business
  - h. Providing strategic advice to a *client* on its competitive position while having a joint venture or similar interest with a competitor of the *client*
  - i. Advising a *client* on the acquisition of a business which the *firm* is also interested in acquiring
  - j. Advising a *client* on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service
  - k. Providing forensic investigation services to a *client* for the purpose of evaluating or supporting contemplated litigation against another *client* of the *firm*
  - l. Providing tax or personal financial planning services for several members of a family whom the *member* knows to have opposing interests
  - m. Referring a personal financial planning or tax *client* to an insurance broker or other service provider, which refers *clients* to the *member* under an exclusive arrangement
  - n. ***A client asks the member to provide tax or personal financial planning 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]***
  - o. ***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]***
  - p. ***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]***
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