Ethics interpretations and other guidance 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 these guidelines shall have the burden of justifying such departure in any disciplinary hearing.

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

- **Revised definitions**
  - “Attest client” (ET sec. 0.400.03)
  - “Client” (ET sec. 0.400.07)
  - “Joint closely held investment” (ET sec. 0.400.26)
  - “Key position” (ET sec. 0.400.27)
  - “Period of the professional engagement” (ET sec. 0.400.39)
  - “Public interest entities” (ET sec. 0.400.41)
- **Revised “Introduction”** (ET sec. 1.000)
- **Revised interpretations under the “Independence Rule”** (ET sec. 1.200.001)
  - “Entities Included in State and Local Government Financial Statements” (ET sec. 1.224.020)
  - “Simultaneous Employment or Association With an Attest Client” (ET sec. 1.275.005)
  - “Member of a Credit Union” (ET sec. 1.280.040)
  - “Actual or Threatened Litigation” (ET sec. 1.290.010)
  - “General Requirements for Performing Nonattest Services” (ET sec. 1.295.040)
  - “Bookkeeping, Payroll, and Other Disbursements” (ET sec. 1.295.120)
  - “Executive or Employee Recruiting” (ET sec. 1.295.135)
  - “Forensic Accounting” (ET sec. 1.295.140)
  - “Internal Audit” (ET sec. 1.295.150)
  - “Application of the Independence Rule to Engagements Performed in Accordance with Statements on Standards for Attestation Engagements” (ET sec. 1.297.010)
- **Revised interpretation “Records Requests”** (ET sec. 1.400.200) under the “Acts Discreditable Rule” (ET sec. 1.400.001)
- **Revised interpretations under the “Contingent Fees Rule”** (ET sec. 1.510.001)
  - “Services Performed by a Member’s Spouse for a Contingent Fee” (ET sec. 1.510.030)
  - “Contingent Fee Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client” (ET sec. 1.510.040)
  - “Investment Advisory Services” (ET sec. 1.510.050)
- **Revised interpretations under the “Commissions and Referral Fees Rule”** (ET sec. 1.520.001)
  - “Services Performed by a Member’s Spouse for a Commission” (ET sec. 1.520.030)
  - “Referral of Products of Others” (ET sec. 1.520.040)
  - “Commission Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client” (ET sec. 1.520.050)
- **Revised interpretation “Disclosing Information to Persons or Entities Associated with Clients”** (ET sec. 1.700.030) under the “Confidential Client Information Rule” (ET sec. 1.700.001)

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1 All ET sections can be found in AICPA Professional Standards.
Text of Revised Definition of Attest Client
(Additions in boldface italic and deletions are in strikethrough)

.03 **Attest client.** A client that engages a member to perform an attest engagement or a **person or entity** with respect to which a member performs an attest engagement is performed. [No prior reference: new content.]

If the person or entity that engages a member or member’s firm (member) to perform professional services (engaging entity) is not also the attest client, the member should refer to the “Client Affiliate” interpretation [1.224.010] to determine whether the engaging entity is an affiliate from which the member should be independent. However, because threats to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001] and the “Conflicts of Interest for Members in Public Practice” interpretation [1.110.010] may still exist with respect to the engaging entity, members should comply with this rule and interpretation.

See paragraph .06 of the “Client Affiliates” interpretation [1.224.010] for acquisitions and business combinations that involve a financial statement attest client.

See paragraph .03 of the “Simultaneous Employment or Association With an Attest Client” interpretation [1.275.005] for independence guidance related to a member in a government audit organization that performs an attest engagement with respect to the government entity.

**Effective Date**
This interpretation is effective December 15, 2014.

[See Revision History Table.]

Text of Revised Definition of Client
(Additions in boldface italic and deletions are in strikethrough)

.07 **Client.** Any person or entity, other than the member’s employer, that engages a member or member’s firm to perform professional services (engaging entity) and also, if different, a person or entity with respect to which a member or member’s firm performs professional services (subject entity) are performed. When the engaging entity and the subject entity are different, while there is only one engagement, they are separate clients. 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]
See paragraph .03 of the “Simultaneous Employment or Association With an Attest Client” interpretation [1.275.005] for independence guidance related to a member in a government audit organization that performs an attest engagement with respect to the government entity.

[See Revision History Table.]

Text of Revised Definition of Joint Closely Held Investment
(Additions in boldface italic)

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

[See Revision History Table.]

Text of Revised Definition of Key Position
(Deletions are in strikethrough)

.27 Key position. 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]

[See Revision History Table.]

Text of Revised Definition of Period of the Professional Engagement
(Deletions are in strikethrough)

.39 Period of the professional engagement. The period 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]

[See Revision History Table.]

Text of Revised Definition of Public Interest Entity
(Additions in boldface italic)

.41 Public interest entities. All of the following:
   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.
   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
   • the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;
   • size; and
   • 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 attest client under such regulations. [Prior reference: paragraph .20 of ET section 100-1]

[See Revision History Table.]
Text of Revised Introduction
(Additions in boldface italic and deletions are in strikethrough)

1.000 Introduction
.01 Part 1 of the Code of Professional Conduct (the code) applies to members in public practice. Accordingly, when the term member is used in part 1 of the 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 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 within the government audit organization, are considered in public practice with respect to those entities provided the head of the government audit organization meets at least one of the following criteria:

a. Is directly elected by voters of the government entity with respect to which attest engagements are performed
b. Is appointed by a legislative body and is subject to removal by a legislative body
c. Is appointed by someone other than the legislative body, as long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body

[No prior reference: new content]

Effective Date
.03 Effective December 15, 2014. [See Revision History Table.]
Text of Revised Entities Included in State and Local Government Financial Statements
(Additions in boldface italic and deletions are in strikethrough)

1.224.020 Entities Included in State and Local Government Financial Statements
[Paragraphs .01–.07 are unchanged.]
.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” [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, 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 criteria in the Introduction of part 1 [1.000.02] exceptions provided for in paragraph .07b of the “Client” definition (0.400.07) were met. [Prior reference: paragraph .12 of ET section 101]

[See Revision History Table.]

Text of Revised Simultaneous Employment or Association With an Attest Client
(Additions in boldface italic and deletions are in strikethrough)

1.275.005 Simultaneous Employment or Association With an Attest Client
[Paragraphs .01–.02 are unchanged.]
.03 However, threats will be at an acceptable level and independence will not be impaired when either of the following situations exists:

a. 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 and the partner or professional employee meets all of the following safeguards:

   i. Does not hold a key position at the educational institution.
   ii. Does not participate on the attest engagement team.
   iii. Is not an individual in a position to influence the attest engagement.
   iv. Is employed by the educational institution on a part-time and non-tenure basis.
   v. Does not participate in any employee benefit plans sponsored by the educational institution, unless participation is required.
   vi. 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 [1.277.010] of the “Independence Rule” [1.200.001]. [Prior reference: paragraph .21 of ET section 101].

b. A member in a government audit organization performs an attest engagement with respect to the government entity and the head of the government audit organization meets at least one of the following:

   i. Is directly elected by voters of the government entity with respect to which attest engagements are performed
ii. Is appointed by a legislative body and is subject to removal by a legislative body

iii. Is appointed by someone other than the legislative body, as long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body

.04 Members that are simultaneously employed or associated with an attest client should consider their obligations as a member in business under part 2 of the code. [No prior reference: new content]

Effective Date

.05 Paragraph .04 of this interpretation is effective December 15, 2014.

A nonauthoritative question and answer regarding independent contractors retained by the firm who are simultaneously employed or associated with an attest client is available at


[See Revision History Table.]

Text of Revised Member of a Credit Union
(Additions in boldface italic and deletions are in strikethrough)

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 credit union client. However, if 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 credit union client, threats to compliance with the “Independence Rule” [1.200.001] 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.

[Paragraph .02 is unchanged.]

Text of Revised Actual or Threatened Litigation
(Additions in boldface italic and deletions are in strikethrough)

1.290.010 Actual or Threatened Litigation
[Paragraphs .01—.06 are unchanged.]

.07 If threatened or actual litigation is unrelated to the performance of an 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” [1.200.001] 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.
Paragraphs .08–.10 are unchanged.

.11 If only the underwriter or officers or directors of the covered member's other attest clients of the covered member file cross-claims against the covered member, threats to the covered member's compliance with the "Independence Rule" [1.200.001] would be at an acceptable level unless other circumstances create threats to compliance with the "Independence Rule."

[See Revision History Table.]

Text of Revised General Requirements for Performing Nonattest Services

(Additions in boldface italic and deletions are in strikethrough)

1.295.040 General Requirements for Performing Nonattest Services

[Paragraph .01 is unchanged.]

.02 The safeguards in paragraph .01 and the “Documentation Requirements When Providing Nonattest Services” interpretation [1.295.050] of the “Independence Rule” [1.200.001] 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 attest client-member relationship. However, in providing such services, the member must not assume management responsibilities, as described in the “Management Responsibilities” interpretation [1.295.030] of the “Independence Rule.” [Prior reference: paragraph .05 of ET section 101]

[See Revision History Table.]

Text of Revised Bookkeeping, Payroll, and Other Disbursements

(Additions in boldface italic and deletions are in strikethrough)

1.295.120 Bookkeeping, Payroll, and Other Disbursements

[Paragraph .01 is unchanged.]

.02 If the member applies the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001], threats would be at an acceptable level and independence would not be impaired. For example, a member may

a. record transactions to an attest client’s general ledger when management has determined or approved the account classifications for the transaction.

b. post client-coded transactions coded by the attest client to the attest client’s general ledger.

[Items c–i of paragraph .02 are unchanged.]
Text of Revised Executive or Employee Recruiting  
(Additions in boldface italic and deletions are in strikethrough)

1.295.135 Executive or Employee Recruiting  
[Paragraph .01 is unchanged.]  
.02 If the member applies the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001], threats would be at an acceptable level and independence would not be impaired. For example, a member may  
   a. recommend a position description or candidate specifications.  
   b. solicit and screen candidates based on client-approved criteria approved by the attest client, such as required education, skills, or experience.  
   c. recommend qualified candidates to the attest client for their consideration based on client-approved criteria approved by the attest client.  
   d. participate in employee hiring or compensation discussions in an advisory capacity.  

[See Revision History Table.]

Text of Revised Forensic Accounting  
(Additions in boldface italic and deletions are in strikethrough)

1.295.140 Forensic Accounting  
[Paragraph .01 is unchanged.]  
.02 Attest client. For purposes of this interpretation, the term attest client refers to an underlying party to the litigation for whom the attest client with respect to which the member is providing litigation 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 [1.265.010] of the “Independence Rule” [1.200.001].  

[Paragraphs .03–.06 are unchanged.]  
[See Revision History Table.]

Text of Revised Internal Audit  
(Additions in boldface italic and deletions are in strikethrough)

1.295.150 Internal Audit  
[Paragraphs .01–.09 are unchanged.]  
.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 attest 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.  

[Paragraphs .11–.12 are unchanged.]  
[See Revision History Table.]
Text of Revised Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements
(Additions in boldface italic and deletions are in strikethrough)

1.297.010 Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements
[Paragraph .01 is unchanged.]

.02 If the individual or entity that engages the covered member (engaging entity) is not the responsible party, the covered member need not be independent of that individual or entity (engaging entity). However, the covered member should consider the because threats to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001] and the “Conflicts of Interest” interpretation [1.110.010] of the “Integrity and Objectivity Rule” (1.100.001), with regard to any relationships that may exist with the individual or entity that engages the covered member to perform these services, may still exist with respect to the engaging entity, members should comply with this rule and interpretation.

[Paragraph .03 is unchanged.] [See Revision History Table.]
Text of Revised Records Requests
(Additions in boldface italic and deletions are in strikethrough)

1.400.200 Records Requests

Terminology

[Paragraph .01 is unchanged.]

Applicability

.02 When a person or entity engages a member to perform professional services (engaging entity) with respect to or for the benefit of another person or entity, the member will be considered in compliance with the requirements of this interpretation related to client-provided records if the member returns these records to the person or entity that gave the records to the member.

.03 When an engaging entity engages a member to perform professional services for the benefit of another person or entity (beneficiary), the member will be considered in compliance with the requirements of this interpretation related to a member's work products if the member provides such work products to the beneficiary. For example, if a company engages a member to perform personal tax services for the benefit of its executives, the member would be in compliance with the interpretation if the member provided the tax returns to the executives (see the “Confidential Client Information Rule” [1.700.001]).

.04 When an engaging entity engages a member to perform professional services with respect to another entity that is not the beneficiary of the professional services, absent an agreement stating otherwise, the member would be in compliance with the requirements of this interpretation related to a member’s work products if the member provided such work products to the engaging entity. For example, if a company engaged a member to value the assets of another company for a possible acquisition, absent an agreement stating otherwise, the member would be in compliance with this interpretation if the member provided the valuation report only to the engaging entity.

Interpretation

[Former paragraphs .02–.11 are now paragraphs .05–.14. The content is unchanged.]

[See Revision History Table.]
Text of Revised Services Performed by a Member’s Spouse for a Contingent Fee
(Additions in boldface italic and deletions are in strikethrough)

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 with respect to which the member performs a service listed in paragraph .01a of the “Contingent Fees Rule” [1.510.001] without causing the member to be in violation of the “Contingent Fees Rule” if
   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.

[Paragraph .02 is unchanged.]

[See Revision History Table.]

Text of Revised Contingent Fee Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client
(Additions in boldface italic and deletions are in strikethrough)

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 with respect to which the member performs a service listed in paragraph .01a of the “Contingent Fees Rule” [1.510.001] and
   b. a nonattest client employee benefit plan that is sponsored by an attest client for whom with respect to which the member performs a service listed in paragraph .01a of the “Contingent Fees Rule.”

[Paragraph .02 is unchanged.]

[See Revision History Table.]

Text of Revised Investment Advisory Services
(Additions in boldface italic and deletions are in strikethrough)

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 with respect to which the member performs a service listed in paragraph .01a of the “Contingent Fees Rule” [1.510.001] without violating that rule if all of the following safeguards are met:
   a. The fee is determined based on a specified percentage of the attest 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 attest client’s additions or withdrawals during the period.
   c. The fee arrangement is not renewed with the attest client more frequently than on a quarterly basis. [Prior reference: paragraphs .047–.048 of ET section 391]

[Paragraph .02 is unchanged.]

[See Revision History Table.]
Text of Revised Services Performed by a Member’s Spouse for a Commission
(Additions in boldface italic and deletions are in strikethrough)

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 with respect to which the member performs a service listed in paragraph .01 of the “Commissions and Referral Fees Rule” [1.520.001] 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.

[Paragraph .02 is unchanged.]
[See Revision History Table.]

Text of Revised Referral of Products of Others
(Additions in boldface italic and deletions are in strikethrough)

1.520.040 Referral of Products of Others
[Paragraphs .01–.02 are unchanged.]
.03 In addition, if a member receives a commission for referring a third party’s product or service to a client for whom with respect to which the member does not perform a service listed in paragraph .01 of the “Commissions and Referral Fees Rule” [1.520.001] through a distributor or an agent and receives a commission from the third party, the member should disclose the commission 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 of that rule during a period in which the commission was received would be considered to violate the rule. [Prior reference: paragraphs .375–.376 of ET section 591]
[See Revision History Table.]

Text of Revised Commission Arrangements With an Investment Advisory Services Nonattest Client That Is Related to a Client
(Additions in boldface italic and deletions are in strikethrough)

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 with respect to which the member performs a service listed in paragraph .01 of the “Commissions and Referral Fees Rule” [1.520.001]
   b. A nonattest client employee benefit plan that is sponsored by a client for whom with respect to which the member performs a service listed in paragraph .01 of the “Commissions and Referral Fees Rule”

[Paragraphs .02–.03 are unchanged.]
[See Revision History Table.]
Text of Revised Disclosing Information to Persons or Entities Associated With Clients
(Additions in boldface italic and deletions are in strikethrough)

1.700.030 Disclosing Information to Persons or Entities Associated With Clients

.01 When a member is engaged by either spouse to prepare a married couple’s joint tax return, the two spouses are considered to be one the member’s client, even if the member deals exclusively with was engaged by one spouse and deals exclusively with that 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” [1.700.001], because both are the member’s client. The member should consider reviewing

a. the legal implications of such disclosure with an attorney and
b. responsibilities under any tax performance standards, such as Section 10.29 of IRS Circular 230. [Prior reference: paragraphs .031–.032 of ET section 391]

.02–.03 When a person or entity engages a member to perform professional services (engaging entity) for the benefit of another person or entity (beneficiary), the engaging entity and the beneficiary are considered two separate clients. Accordingly, the member should not disclose confidential client information of either client to the other without consent of the client whose confidential information is to be disclosed. For example, if a company engages a member to perform personal tax services for the benefit of its executives request of the company, the member’s disclosure of the executives’ confidential client information to the company without the consent of the applicable executive would be a violation of the “Confidential Client Information Rule” [1.700.001] even if the company is not otherwise a client. [Prior reference: paragraphs .041–.042 of ET section 391]

[See Revision History Table.]