



# EXPOSURE DRAFT

Proposed Interpretation of the AICPA Code  
of Professional Conduct

Disclosing Client Information in Connection  
With a Quality Review (ET sec. 1.700.110)

**AICPA Professional Ethics Division**  
**June 20, 2018**

**Comments are requested by August 20, 2018**

Prepared by the AICPA Professional Ethics Executive Committee for comments from those interested in independence, behavioral, and technical standards matters. Comments should be addressed to the Professional Ethics Division, [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com).

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June 20, 2018

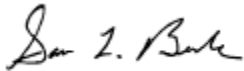
This exposure draft contains an important proposal for review and comment by the AICPA's membership and other interested parties regarding a new interpretation for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the proposed interpretation are included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

After the exposure period has concluded and PEEC has evaluated the comments, PEEC may decide to publish the proposed interpretation in a final release. Once published, the interpretation will become effective on the last day of the month in which the release is published in the *Journal of Accountancy*, unless otherwise stated in the release.

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 August 20, 2018. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at the following link: [www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/Pages/ExposureDrafts.aspx](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/Pages/ExposureDrafts.aspx). PEEC will consider comments at its subsequent meetings.

Please email comments to the Professional Ethics Division (Ethics-ExposureDraft@aicpa-cima.com).

Sincerely,



Samuel L. Burke, Chair  
AICPA Professional Ethics Executive Committee



Toni Lee-Andrews, Director  
AICPA Professional Ethics Division

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# Contents

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	<b>Page</b>
<b>Explanation of the Proposed Interpretation “Disclosing Client Information in Connection With a Quality Review” .....</b>	<b>6</b>
<b>Text of Proposed Interpretation “Disclosing Client Information in Connection With a Quality Review” .....</b>	<b>8</b>

## **Explanation of the Proposed Interpretation “Disclosing Client Information in Connection With a Quality Review”**

The Professional Ethics Executive Committee (PEEC) is exposing for comment a new interpretation entitled “Disclosing Client Information in Connection With a Quality Review.” If adopted, this interpretation will be codified in ET sec. 1.700.110.<sup>1</sup>

### ***Background***

The “[Confidential Client Information](#) Rule” (ET sec. 1.700.001) provides that a member must not disclose confidential client information without specific consent of the client, with limited exceptions as described in the rule and its interpretations. One such exception is that members who obtain a review of the member’s “practice under AICPA or state CPA society or Board of Accountancy authorization” are not required to obtain specific client consent to disclose information in connection with the review. A peer review is an example of such a review of a practice. In the context of a tax practice, a quality review is a review of a member’s tax practice and includes “voluntary tax practice reviews” as described in the AICPA *Tax Practice Quality Control Guide*. Confidentiality of information provided or obtained in the context of a quality review is addressed by Treasury Regulation (Treas. Reg.) 7216.

The extant rule contains explicit provisions of relief for peer reviews as described previously, as well as for reviews for purposes of acquisition of a member’s practice (ET sec. 1.700.050). However, it was not clear to members or the public whether quality reviews were included in those exceptions to obtaining specific client consent. Specifically, a quality review is not for purposes of acquisition and is not required by any state board or state society to provide tax services.

### ***Applicability and Explanation***

The proposed interpretation applies to all members obtaining or performing a quality review of a tax practice. Initial drafts of the proposal applied the interpretation to voluntary tax practice reviews (discussed previously), although Treas. Reg. 301.7216-2(p) describes such reviews as “quality or peer” reviews. PEEC agreed to use the term “quality review” for consistency purposes and to avoid unintended exclusion of quality reviews by other titles. PEEC also omitted the term “peer review” to avoid confusion with a peer review of an attest practice required by a regulator or membership body.

PEEC reviewed the existing exceptions for third-party reviews of a member’s practice and agreed that the proposal is consistent with the existing approaches to reviews of a practice. The proposal requires that members performing quality reviews not use to their advantage or disclose any information obtained in the course of the review. Furthermore, members obtaining such reviews should be satisfied that the disclosure requirements of Treas. Reg. 7216 are met at a minimum and apply additional safeguards as the member determines necessary. The requirements of Treas. Reg. 7216 regarding disclosures of information in connection with quality reviews are not less restrictive than the requirements of the AICPA “Confidential Client Information Rule” (ET sec. 1.700.001) and are considered adequate safeguards against prohibited disclosures. Similar to other reviews of a member’s practice, if threats are still not at an acceptable level, the member should take additional precautions, such as entering into a confidentiality agreement or de-identifying the information.

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

### ***Request for Specific Comments***

Although PEEC welcomes comments on all aspects of the proposed interpretation, we are specifically requesting feedback on the following:

1. Is it clear that the proposal is applicable to quality reviews as described by Treas. Reg. 7216, which includes voluntary tax practice reviews, and similar reviews that would be subject to Treas. Reg. 7216?
2. Is it clear that confidential state and local tax information is included in the scope of confidential client information addressed by the proposed interpretation? Is it clear that the requirements of Treas. Reg. 7216 would apply to that information in the context of the proposed standard?
3. Do you agree that a confidentiality agreement should be recommended as an additional safeguard if the member determines it is necessary instead of being a required safeguard for all quality reviews?
4. Do you recommend the consideration of any other safeguards in paragraph.02?
5. Do you foresee any hardships or obstacles to implementation of the proposed standard?

### ***Effective Date***

PEEC proposes that the final interpretation be effective the last day of the month in which it appears in the *Journal of Accountancy*.

## **Text of Proposed Interpretation “Disclosing Client Information in Connection With a Quality Review”**

### **1.700.110 Disclosing Client Information in Connection With a Quality Review**

**.01** For purposes of the “Confidential Client Information Rule” [1.700.001], a review of a member’s professional practice includes a quality review (for example, a voluntary tax practice review) performed under the monitoring requirements of the member’s tax practice quality control document. When a member uses a third party to perform such reviews of the member’s tax practice, threats to compliance with the “Confidential Client Information Rule” [1.700.001] may exist.

**.02** To reduce the threat to an acceptable level, the member should, at a minimum, be satisfied that the member complies with the requirements of Treasury Regulation 301.7216-2(p) related to disclosures of tax return information during such reviews. If the member determines that threats have not been reduced to an acceptable level, the member should apply additional safeguards to reduce the threat to an acceptable level (for example, enter into a written confidentiality agreement with the reviewer or de-identify tax return information provided to the reviewer).

**.03** Members who perform such reviews should not use to their advantage or disclose any confidential client information that comes to their attention during the review. Members should refer to Treasury Regulation 301.7216-2(p) for further guidance related to tax return information obtained during a quality review.