PROFESSIONAL ETHICS
EXECUTIVE COMMITTEE

Open Meeting Agenda

August 14, 2019
Durham, NC
## AICPA Professional Ethics Executive Committee
### Open Agenda
#### August 14, 2019

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<td>August 14th</td>
<td>Open meeting begins</td>
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| 10:00 a.m. – 10:10 a.m. | Welcome  
Mr. Lynch will welcome the committee members and discuss administrative matters. |
| 10:10 a.m. – 10:40 a.m. | Information technology and cloud services  
Ms. Goria will provide the committee with an update of the task force’s discussions since the last meeting. |
| 10:40 a.m. – 11:00 a.m. | IESBA update  
Mr. Mintzer and Ms. Goria will update the committee on the activities from the May meeting, and Ms. Goria will seek input for the committee's comment letter on the IESBA’s role and mindset exposure draft. Ms. Lee-Andrews will discuss implementing a proactive comment letter process for IESBA exposure drafts.  
❖ External link: Exposure Draft: Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants |
| 11:00 a.m. – 11:30 a.m. | Strategy and work plan consultation paper  
Mr. Lynch and Ms. Klepcha will provide the committee with a status report on this project. |
| 11:30 a.m. – 12:00 p.m. | NOCLAR  
Mr. Denham and Ms. Lee-Andrews will provide the committee with a status report on this project. |
| 12:00 p.m. – 1:00 p.m. | Lunch |
| 1:00 p.m. – 1:15 p.m. | Statements on standards for tax services  
Ms. Saunders and Mr. Wiley will provide the committee with a status report on this project. |
| 1:15 p.m. – 1:45 p.m. | State and local government  
Ms. Kappler and Ms. Powell will provide the committee with an overview of the updated implementation tools.  
❖ External link — SLG Official Release |
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<td>1:45 p.m. – 2:30 p.m.</td>
<td><strong>Inducements</strong></td>
<td>Ms. Dourdourekas and Ms. Craig will provide an overview of the draft practice aid for the committee’s feedback.</td>
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<td>2:30 p.m. – 2:45 p.m.</td>
<td><strong>P.M. Break</strong></td>
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<td>2:45 p.m. – 3:30 p.m.</td>
<td><strong>Staff augmentation</strong></td>
<td>Ms. Snyder and Mr. Wiley will provide a status update on the feedback received from NASBA and Ms. Hnatt will report on information regarding co-employment.</td>
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<tr>
<td>3:30 p.m. – 3:35 p.m.</td>
<td><strong>Minutes of the PEEC open meeting</strong></td>
<td>The committee is asked to approve the minutes from the May 2019 open meeting.</td>
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<td><strong>Open meeting concludes</strong></td>
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<td><strong>Future meeting dates</strong></td>
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|             |                     | • November 6 - 7, 2019; Durham, NC  
• February 11 - 12, 2020; Durham, NC  
• May 5 - 6, 2020; Durham, NC*  
• August 11 - 12, 2020; Durham, NC*  
• November 17 - 18, 2020; Durham, NC*  
* In person versus call in format not yet determined. |
Strategy and Work Plan

Task Force Members

Task Force Charge
The subgroup is developing a consultation paper, Strategy and Work Plan, for review and comment by the AICPA’s members and other interested parties.

Reason for Agenda Item
Prior to this meeting the committee submitted feedback to the subgroup regarding potential issues to include in the consultation paper. After discussing the feedback, the subgroup developed the following recommendations.

I. Proposed New Projects
The subgroup recommends that the consultation paper seek input on the following possible new committee/staff projects. While the subgroup would appreciate input on all aspects, it would be particularly appreciative of input into the adequacy of the descriptions and questions posed.

Standard Setting Projects

Business Relationships. Business relationships have changed since the Cooperative Arrangements with Attest Clients interpretation (1.265.010) under the Independence Rule (1.200.001) was first adopted in 1993 (e.g., subcontracting or teaming arrangements, alliances). In addition, firms are engaging in business relationships with nonattest clients (e.g., finance and accounting outsourcing) that may create threats to compliance with the Integrity and Objectivity Rule (1.100.001). Accordingly, the subgroup believes that the AICPA Code of Professional Conduct (Code) may need to be updated to better reflect the types of business relationships in which members are currently involved. To assist the committee in understanding whether this project is needed and if so, how to appropriately scope the project, the subgroup recommends the consultation paper seek input for this project such as:

- Business relationships firms have with either clients or attest clients
- Additional guidance that would be helpful to address in the Code related to business relationships
- The significance of this topic

Definition of Office. The definition of office is used to identify which individuals need to remain independent of attest clients. The definition of office was revised during the committee’s independence modernization project that took place from February 2000 to August 2001. Since that time, there have been many changes to how businesses practice that may blur how offices are viewed. Accordingly, the subgroup believes that the Code may need to be updated to better reflect these changes in practice. To assist the committee in understanding whether this project is needed and, if so, how to appropriately scope the project, the subgroup recommends the consultation paper seek input such as:
• The challenges with the current definition of office

• Additional guidance that would be helpful to address in the Code related to the definition of office

• The significance of this topic

**Client Affiliates.** The definition of an affiliate currently extends to common ownership by entities and not common ownership by individuals. Since staff receives frequent inquiries regarding whether entities that are owned by the same individual should be considered affiliates, the subgroup recommends the consultation paper seek input on

• Whether a project should be undertaken to add guidance on this topic to the Code?

• When is it not appropriate for entities that are owned by the same individual to be considered affiliates?

**Artificial Intelligence (AI).** The subgroup recommends the consultation paper seek input on

• What unique ethical challenges does the use of artificial intelligence present to members beyond what is already covered by the *Integrity and Objectivity Rule* and *General Standards Rule* and related interpretations?

• If there are unique challenges, how do they differ for members in business and members in public practice?

**Simultaneous employment or association with an attest client.** The subgroup recommends the consultation paper seek input on

• What challenges do members encounter when complying with the *Simultaneous Employment or Association with an Attest Client* interpretation (1.275.005)?

• What relief or exceptions should be explored by the committee and why?

**Digital Assets.** The Code does not provide any guidance specific to whether there are independence threats when members own digital assets such as cryptocurrencies. The subgroup recommends forming a task force, that includes subject matter experts, to understand independence and ethics issues unique to the digital asset ecosystem. To assist the committee with appropriately scoping the project, the subgroup recommends the consultation paper seek input such as:

• Threats regarding digital assets and how they have been addressed

• Additional guidance that would be helpful to address in the Code related to digital assets

• The significance of this topic

**529 College Savings Plans.** In 2005 the committee developed guidance for 529 savings plans. This guidance concludes that a covered member who is an account owner has a direct financial interest in the plan as well as in the underlying investments held by the plan because the account owner elects which sponsor’s 529 savings plan to invest in, and prior to making the investment decision, the covered member has access to information about the plan’s investment options or funds. The subgroup was informed that currently the underlying securities are not always known by account owners when they invest. Accordingly, the subgroup believes that the Code may need to be updated to better reflect how plans currently operate. To assist the committee in understanding whether this project is needed and if so,
how to appropriately scope the project, the subgroup recommends the consultation paper seek input such as:

- What challenges do those who invest in 529 savings plans encounter in monitoring the underlying investments held by these plans?
- What changes to or additional guidance would be helpful to include in the Code related 529 savings plans?
- How significant an issue is this in practice?

**Member Enrichment Projects**

**Data Security/Breaches.** The subgroup recommends the consultation paper seek input on what information commenters believe the division should provide to assist members with data security or responding to data breaches.

**Conflicts of Interest.** The subgroup recommends the consultation paper seek input on what information commenters believe the division should provide to assist members with better understanding and applying the conflicts of interest interpretations.

**Operational Enhancements to the Code.** The subgroup recommends the consultation paper seek input on whether there are any operational enhancements that could be made to the Code to make it more user friendly.

### II. Proposed Current Projects

The subgroup recommends that the following projects be undertaken by the committee and/or staff as current projects. The subgroup does not believe the consultation paper needs to solicit feedback on these projects.

**Standard Setting Project**

**Restricted Use Reports and Independence Provisions with a Financial Audit Centric Perspective.** There are two components to this project. The first component would be for a task force to determine if revisions are necessary to paragraphs .03 and .04 of the *Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs* interpretation (1.297.020) now that AT-C section 215 (AUPs) will allow for the issuance of general use reports. This is because the requirement to issue a restricted use report was a factor considered by the committee when developing the modifications to independence as outlined in the above referenced ethics interpretation. The subgroup recommends the task force consider the IESBA’s standard. The second component of this project would be for the task force to identify any financial statement centric provisions in the code and recommend revisions for how these provisions should be handled if the attest engagement is not financial statement related.
**Member Enrichment Projects**

**IESBA Comparison.** Given the restructure of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), the subgroup recommends staff compare the Code to the IESBA Code and identify where the Code is less restrictive than the IESBA Code. The subgroup recommends staff consider including a convergence matrix within this document to assist members in understanding where the AICPA addresses IESBA topics more robustly in non-authoritative guidance.

**GAO Independence Comparison.** The subgroup recommends staff update the GAO independence comparison for the latest yellow book changes.

**Data Analytics to Identify Member Enrichment Opportunities.** The subgroup recommends staff explore what tools the Association may have that can assist staff with analyzing data sets obtained from cases and hotline inquiries to generate useful insights, with the goal of developing member enrichment materials.

**Records Request.** The subgroup recommends staff draft an FAQ to clarify whether the intention of the Records Request interpretation was to allow a member to withhold a client's records for costs pertaining to copying, storage, and possibly shipping.

**Assisting Client with Implementing Accounting Standards.** Staff is working with the Enhancing Audit Quality (EAQ), Center for Plain English Accounting (CPEA), and Accounting Standards teams to develop a webcast discussing potential independence issues that exist when assisting clients with implementing new accounting standards such as the revenue and leasing standards.

**Enhanced Visibility of Non-authoritative Guidance.** The subgroup recommends staff identify ways to enhance visibility of the division’s non-authoritative guidance. So far, staff has identified two opportunities. First, staff is working with the content management team to add the division’s FAQs and as many as practicable of the division’s practice aids, implementation guides, toolkits, and other guidance to the online interface where the Code currently resides (depending on technology constraints, this interface may not be the best place to house interactive materials). Additionally, staff is working on adding the FAQs to the Online Professional Library (OPL) subscription service. Members who have subscriptions to OPL will be able to access the FAQs as part of the publication Technical Questions and Answers (that is, not leave the subscription platform to access the FAQs).

**Enforcement Projects**

**Collaboration with Peer Review Division for Effective and Efficient Member/Firm Remediation.** An enforcement project is underway wherein the peer review and ethics divisions staff are collaborating on potential ways to expedite certain referrals. In several of these scenarios the ethics division may need to decide on whether to rely on the results of actions taken by peer review and forgo further investigation. Any proposals will be vetted by the Peer Review Board and the PEEC.
Effect on Automatic Sanctioning with Changes in Office of Professional Responsibility (OPR) Enforcement. The subgroup recommends staff consult with internal legal counsel to determine if changes to OPR’s internal operations have any impact on OPR being an approved body for automatic sanctioning.

Reviewing the Automatic Sanctioning Guidelines for Consistency. The subgroup recommends the Automatic Sanctioning Subgroup undertake a project to evaluate the challenges faced with mapping an appropriate sanction using the established guidelines and develop recommendations for addressing these challenges.

III. Proposed Projects Not to Pursue
The subgroup recommends that the following projects not be pursued at this time.

De Minimis Fees. The subgroup does not recommend a project be pursued at this time to evaluate whether there is a threshold, such as de minimis or materiality, that could be added to the “Unpaid Fees” interpretation. A member of the subgroup noted that, since some view unpaid fees as loaning money to a client, then when scoping the project, the loan rules are usually included as well.

Comparisons to Other Standard Setter’s Rules. The subgroup does not recommend projects be pursued at this time to compare the Code to standard setter’s rules (e.g., SEC, PCAOB, treasury, HHS and state boards) aside from the IESBA, GAO and DOL.

Ethical Guidance Related to Client Approval for Sending Work Outside the U.S. It was suggested that the committee consider a project to determine if there is adequate guidance requiring members receive clients’ approval before sending client records outside the U.S. especially when the governments of those foreign countries are empowered to obtain those records more freely than U.S. jurisdictions. The subgroup does not recommend a project be pursued at this time to explore what additional ethical requirements aside from Use of a Third-Party Service Provider interpretations (1.300.040, 1.150.040) and the Disclosing Information to a Third-Party Service Provider interpretation (1.700.040) and Disclosure of Client Information to a Third Party interpretation (1.700.060) may be necessary.

Removal of the Government Auditor Without Approval. The subgroup does not recommend a project be pursued at this time to revisit the “Simultaneous Employment or Association with an Attest Client” interpretation (1.275.005) where the government auditor can be “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”. The subgroup noted that the phrase “oversight or” was approved by PEEC in 2014 in the government exception so that many government entities can be audited.

Contingent Fees. The subgroup does not recommend a project be pursued at this time to revisit the “Contingent Fee Rule” (1.510.001) because staff does not see an increase in inquiries related to this rule. Also, the Inducements Task Force is working on member enrichment materials that may assist with providing additional guidance in relation to this topic.
Gifts and Entertainment. The subgroup does not recommend a project be pursued at this time to revisit the “Gift and Entertainment” subsection (1.120) because staff does not see an increase in inquiries related to this subsection. Also, the Inducements Task Force is working on member enrichment materials that may assist with providing additional guidance in relation to this topic.

Using a third-party provider for internal purposes or administrative support. The subgroup does not recommend a project be pursued at this time to provide additional guidance regarding the use of a third-party provider for internal purposes or administrative support that may involve client data. The subgroup noted that the examples provided in the “Use of a Third-Party Service Provider” interpretation (1.150.040) are clear that a third-party provider is not expected to look at client data while providing a firm with administrative support.

Peer Review for Tax Practice. The subgroup does not recommend a project be pursued at this time to undertake a study to consider whether there should be a quality/peer review for a tax practice. Instead, the subgroup recommends communicating this feedback to Henry Grzes, lead manager in the AICPA’s Tax Practice & Ethics Group.

Scared Straight Litigation. The subgroup does not recommend a project be pursued at this time to undertake a project to monitor and report on court cases and litigious actions involving CPAs. Instead, the subgroup recommends communicating this feedback to Henry Grzes, lead manager in the AICPA’s Tax Practice & Ethics Group to see if the Tax team believes it is something that should be undertaken.

IV. Proposed Projects with No Subgroup Recommendation

The subgroup did not have a recommendation for the following projects.

Reporting of Independence Breach to Affiliate that is Also an Attest Client. It was suggested that the committee consider a project to update the Breach of an Independence interpretation to specifically address what procedures should be followed when multiple audit clients are impacted by the same breach.

Client Access to Information in Cloud. It was suggested that the committee consider a project to address a potential management participation threat related to evaluation of whether the security of the cloud is adequate in cases where the cloud is used by a client and a member to access information. Staff will report on further clarification received.

Confidentiality from the Government. It was suggested that the committee consider a project to update the Disclosure of Client Information to Third Party interpretation (1.700.060) to address contrasting ethical duties between the legal and the accounting profession. One such contrasting duty involves situations where an accountant will provide information to a government agency that the accountant will not provide to the client. Staff will report on further clarification received.

Action Needed

In addition to feedback on the above recommendations, the subgroup requests the Committee’s approval of the following:
1. The consultation paper should not solicit feedback on timing of the projects, rather, the committee should determine the timing of the projects when it considers the consultation feedback.

2. The consultation paper should solicit general feedback about what formats members find most useful for member enrichment materials.
State and Local Government Task Force

Task Force Members
Nancy Miller (Chair), James Curry, John Good, Lee Klumpp, George Dietz, Flo Ostrum, Anna Dourdourekas, Jack Dailey, Randy Roberts, Reem Samra, Barbara Romer (Observer), K. Chamberlin (Observer), E. Goria (Staff), J. Kappler (Staff), M. Powell (Staff)

Task Force Charge
Consider incorporating the threats and safeguards approach into the Entities Included in State and Local Government Financial Statements interpretation [1.224.020] and determine if a conceptual framework assessment could be utilized to determine when a member needs to be independent of state and local governmental entities for which he or she is not providing financial statement attest services. The task force will also clarify who at the firm and which immediate family members the interpretation should extend to and if the interpretation should contain any exceptions. The task force will also determine if the final guidance could be extended to the federal government environment.

Reason for Agenda Item
The draft implementation guide for state and local government client affiliates received an editorial review and is currently undergoing a tone of voice (TOV) review. Once the text portion of the implementation guide is finalized, the document will be submitted to the AICPA’s creative services team where it will be properly branded, and the graphics prepared by staff will enhanced.

Staff will demonstrate the interactive matrix and affiliate evaluator tools developed.

Action Needed
The committee is asked to review the draft implementation guide found in Agenda Item 3A and provide staff with any fatal flaw concerns.

Communication Plan
Staff will provide the committee with an update on planned communications.

Materials Presented
Agenda Item 3B  Draft implementation guide for state and local government client affiliates
Implementation guide
State and local government client affiliates

TBD 2019
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Introduction to implementation guide

The “State and Local Government Client Affiliates” interpretation (ET sec. 1.224.020,¹ hereinafter referred to as “the interpretation”) under the “Independence Rule” (ET sec. 1.200.001) provides that members should be independent of certain entities that are required to be included in a state or local government (SLG) financial statement attest client’s financial statements. The interpretation defines the entities requiring independence as affiliates.

This nonauthoritative implementation guide is designed to assist members with implementing the interpretation by understanding which entities are affiliates and which independence requirements are extended to these affiliates. This implementation guide is not authoritative and should be used in conjunction with the interpretation. This implementation guide includes the following:

► Decision trees that provide an overview of the pathways to identify affiliates of an SLG financial statement attest client
► Descriptions of the pathways in which an entity or investment would be considered an affiliate of an SLG financial statement attest client
► Exhibits that illustrate the decision points along these pathways
► Examples of circumstances or relationships that may require a member to consult the “Conceptual Framework for Independence”
► Description of the nonattest services exception within the interpretation
► Example of how these pathways could be applied to XYZ State

Practice aids:

• Interactive matrix
• Affiliate evaluator

These practice aids will assist you in your decision-making process.

Terms that are defined in the AICPA Code of Professional Conduct (code) are italicized. The first time you see a defined term or citation in this implementation guide, it will link to the code.

¹ You can find all ET sections in the AICPA Code of Professional Conduct.
Affiliate decision trees

I. Decision tree for entities that the applicable financial reporting framework requires to be included in the financial statements of the SLG financial statement attest client

The following decision tree provides a framework for determining affiliates as defined in paragraph .03ai–iii of the interpretation.
II. Decision tree for investments held by an investor

The following decision tree provides a framework for determining affiliates as defined in paragraph .03aiv of the interpretation. For purposes of the interpretation, an investor includes the financial statement attest client or an affiliate of the financial statement attest client that meets the definition of an affiliate under paragraph .03ai of the interpretation.

- **Step 1**
  - (Control pathway)
  - Does the investor have control over the investee?

- **Step 2A**
  - Is the investment trivial and clearly inconsequential to the financial statement attest client’s financial statements as a whole?

- **Step 3B**
  - Is the investment material to the financial statement attest client’s financial statements as a whole?

- **Step 2B**
  - (Significant influence pathway)
  - Does the investor have significant influence over the investee?

- **Yes**
  - Investee is an affiliate of the financial statement attest client as defined in paragraph .03aiv(1) of the interpretation.

- **No**
  - Investee is not an affiliate.

- **Yes**
  - Investee is an affiliate of the financial statement attest client as defined in paragraph .03aiv(2) of the interpretation.

- **No**
  - Investee is not an affiliate.
Pathways

The interpretation specifies three categories of pathways where an affiliate relationship may exist. This implementation guide refers to these pathways as follows:

- **Inclusion pathway**
- **Exclusion pathway**
- **Investment pathways**
  - Control
  - Significant influence

### Inclusion pathway

A **member** could face two scenarios in which an included entity would be considered an affiliate of the SLG **financial statement attest client** and, as a result, the **member** would need to be **independent** of the included entity in addition to being **independent** of the **financial statement attest client**.

An included entity is an entity that is included in the **financial statements** of the **financial statement attest client**.²

1. **Member’s audit report does not reference another auditor.**

   When the included entity is reported on by the **member** or **member’s firm** as part of the **financial statement attest client** and the **member** or **member’s firm** does not make reference to another auditor’s report on the included entity, the included entity is considered an affiliate as defined in paragraph .03.aii of the interpretation. As a result, the “**Independence Rule**” and related interpretations should be applied to the included entity.

2. **Member’s audit report references another auditor.**

   An entity will be considered an affiliate as defined in paragraph .03.a(ii) of the interpretation when the **member** or **member’s firm** makes reference to another auditor’s report on the included entity and
   - the included entity is material to the **financial statement attest client’s financial statements** as a whole, and
   - the **financial statement attest client** has more than minimal influence over the accounting or financial reporting process of the included entity.

   Accordingly, the “**Independence Rule**” and related interpretations should be applied to the included entity with one exception related to the provision of nonattest services (see discussion later under “**Nonattest services exception**”).

² Refer to the **exclusion pathway** for entities that the applicable financial reporting framework requires to be included in the **financial statements** of the SLG **financial statement attest client** but are, nevertheless, excluded.
More than minimal influence

If the included entity is a fund or blended component unit, there is a rebuttable presumption that the financial statement attest client has more than minimal influence over the accounting or financial reporting process of such an included entity. Members should perform the evaluation for discretely presented component units by considering the factors in paragraph .09 of the interpretation to determine if the financial statement attest client has more than minimal influence over the accounting or financial reporting process of such an included entity.

Inclusion pathway illustration

The following exhibit illustrates the steps in determining whether an included entity would be considered an affiliate of the SLG financial statement attest client as defined in paragraph .03ai or paragraph .03aii of the interpretation.

Exhibit A: Inclusion pathway

The evaluation of entities should continue until, in the member’s professional judgment, all affiliates have been identified. For example, when a component unit is determined to be an affiliate under the included entity pathway, the member may need to evaluate this affiliate’s component units as well.

Exclusion pathway

An entity that is excluded from the SLG financial statement attest client’s financial statements will be considered an affiliate as defined in paragraph .03aiii of the interpretation when

- the excluded entity is material to the financial statement attest client’s financial statements as a whole and
- the financial statement attest client has more than minimal influence over the accounting or financial reporting process of the excluded entity.
Accordingly, the “Independence Rule” and related interpretations should be applied to the excluded entity with one exception related to the provision of nonattest services (see discussion later under “Nonattest services exception”).

An excluded entity is an entity that the applicable financial reporting framework requires to be included in the financial statements of the SLG financial statement attest client but is, nevertheless, excluded. This exclusion is a departure from generally accepted accounting principles (GAAP).

**More than minimal influence**

If the excluded entity is a fund or blended component unit, there is a rebuttable presumption that the financial statement attest client has more than minimal influence over the accounting or financial reporting process of such an excluded entity. Members should perform the evaluation for discretely presented component units by considering the factors in paragraph .09 of the interpretation to determine if the financial statement attest client has more than minimal influence over the accounting or financial reporting process of such an excluded entity.

**Exclusion pathway illustration**

The following exhibit illustrates the steps in determining whether an excluded entity would be considered an affiliate of the SLG financial statement attest client as defined in paragraph .03a(iii) of the interpretation.

Exhibit B: Exclusion pathway

The evaluation of entities should continue until, in the member’s professional judgment, all affiliates have been identified. For example, when a component unit is determined to be an affiliate under the excluded entity pathway, the member may need to evaluate this affiliate’s component units as well.
**Investment pathways**

Only an investment in an investee held by an investor will require evaluation to determine whether the investee is an affiliate of the SLG *financial statement attest client*.

When an investment in an investee meets the criteria in either of the following pathways, the investee will be considered an affiliate under paragraph .03aiv of the interpretation.

There are two pathways that should be considered in determining whether an investee is an affiliate:

- **Control investment pathway.** The investor has control over the investee unless the investment in the investee is trivial and clearly inconsequential to the *financial statement attest client’s financial statements* as a whole.

- **Significant influence investment pathway.** The investor has significant influence over the investee and the investment in the investee is material to the *financial statement attest client’s financial statements* as a whole.

When the criteria of either of the preceding pathways are met, the “Independence Rule” and related interpretations should be applied to the investee.

**Investment pathway illustrations**

The following exhibits illustrate the steps that would result in an investee being considered an affiliate of the SLG *financial statement attest client* under paragraph .03aiv of the interpretation.

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3 For purposes of the interpretation, an investor includes only the *financial statement attest client* or an affiliate of the *financial statement attest client* as defined in paragraph .03ai of the interpretation.
Conceptual Framework for Independence

A member may encounter circumstances or relationships that may create threats to independence that could necessitate consulting the “Conceptual Framework for Independence.” Examples of such circumstances or relationships are described in paragraph .06 of the interpretation. The examples presented are not intended to be all inclusive.

Circumstances or relationships that may require a member to consult the “Conceptual Framework for Independence”

Keep these points in mind as you read through the scenarios that follow:

- Firm A is asked to perform the audit of Utility District, a blended component unit of JKL City.
- Partner 1 and Partner 2 are partners in Firm A.
- Partner 2 will be the audit partner on Utility District.
- Firm A does not audit JKL City.

In each of the following scenarios, Firm A should consider threats to independence, and if threats are determined to be significant, it will be required to apply safeguards sufficient to eliminate threats or reduce...
them to an acceptable level. If it is unable to apply safeguards to sufficiently mitigate any significant threats, Firm A’s independence will be impaired if it performs the engagement relative to each scenario.

**Scenario 1: Employment relationships**

Partner 1’s wife is the financial reporting manager for JKL City. Her responsibilities include preparation of the city’s comprehensive annual financial report (CAFR) and overseeing certain members of her team who are responsible for the accounting functions for Utility District.

**Considerations and conclusions**

Firm A consulted the “Conceptual Framework for Independence” to determine whether Partner 1’s wife’s position would create significant threats to its independence related to the audit of Utility District.

Firm A considered the following factors:

- Partner 1’s wife is a covered member’s immediate family member with respect to the Utility District audit.
- Her responsibilities include oversight of accounting functions at Utility District.

Using the “Conceptual Framework for Independence,” Firm A determined that Partner 1’s wife’s role creates management participation, familiarity, and self-interest threats to Partner 1’s compliance with the “Independence Rule” as it relates to the audit of Utility District. After reviewing Partner 1’s wife’s role further, Firm A discovered that she does not prepare the financial statements for Utility District. Those financial statements are prepared by the accounting manager within Partner 1’s wife’s department and then reviewed by the executive director of Utility District. Partner 1’s wife reviews those financial statements only in respect to preparing the city’s CAFR. Firm A also assigned a partner from another office to perform the concurring review on the audit. After considering the safeguards at Utility District and at the firm, Firm A determined that threats were reduced to an acceptable level and performed the audit for Utility District.

**Scenario 2: Nonattest services**

Firm A is engaged to perform the audit of Utility District for fiscal year 20XX. The following year, JKL City inquires whether Firm A can provide financial reporting design services for JKL City’s new enterprise resource planning system. The financial reporting module of that system will also be used by Utility District.

**Considerations and conclusions**

Firm A consulted the “Conceptual Framework for Independence” to determine whether the proposed nonattest services create significant threats to its independence related to the audit of Utility District.

Firm A considered the following factors:

- The nonattest service may be a prohibited service if performed directly for an audit client.
- The nonattest service will be subject to the audit of Utility District.

Using the “Conceptual Framework for Independence,” Firm A determined that self-review and management participation threats would exist if it performed the design services during the period of the professional engagement and that the threats would be significant. Even though Firm A would not be engaged to perform the design services by Utility District directly, Utility District would be using the financial reporting module that Firm A would be designing. Considering this, Firm A determined that the threats could not be reduced to an acceptable level by the application of safeguards, so independence would be impaired. Accordingly, Firm A did not pursue the design services engagement with JKL City.
Scenario 3: Financial interests

Circumstances that may result in Firm A consulting the “Conceptual Framework for Independence” could be situations in which Partner 1 owns the following types of bonds or debt securities:

- Municipal bonds issued by JKL City
- Municipal bonds issued by Delight County, who participates in a joint venture with Utility District
- Utility bonds issued by JKL City, for which Utility District is responsible for the debt service payments
- Conduit revenue bonds issued by Utility District for purposes of funding the construction of a pollution control facility for a private entity

The following example illustrates the application of the “Conceptual Framework for Independence” when Partner 1 owns municipal bonds issued by JKL City.

Considerations and conclusions

Firm A consulted the “Conceptual Framework for Independence” to determine whether the municipal bonds owned by Partner 1 create significant threats to its independence related to the audit of Utility District.

The SLG Task Force is working on the considerations and conclusions for this scenario.

Practice aid: Conceptual framework tool kit for independence

A tool kit available to assist you in your evaluation.

Nonattest services exception

When an entity is an affiliate of a financial statement attest client, the interpretation requires that the “Independence Rule” and related interpretations that are applicable to the financial statement attest client be applied to the affiliate. However, paragraph .07 of the interpretation provides an exception for prohibited nonattest services (that is, services that would impair independence under the “Nonattest Services” subtopic [ET sec. 1.295] of the “Independence Rule”) for affiliates defined in paragraph .03.aii and .03.aiii of the interpretation. For purposes of this implementation guide, this exception is referred to as the “nonattest services exception.”

Under the nonattest services exception, members would not be prohibited from providing these services to affiliates of the SLG financial statement attest client, as defined in paragraph .03.aii or .03.aiii of the interpretation, when the following apply:

- It is reasonable to conclude that the prohibited nonattest service does not create a self-review threat because the results of the nonattest service will not be subject to financial statement attest procedures.

- Any other threats that are created by the provision of the nonattest service (for example, management participation threats) that are not at an acceptable level are eliminated or reduced to an acceptable level by the application of safeguards.
Nonattest services exception scenarios

Keep these points in mind as you read through the scenarios that follow:

- Firm Z audits ABC County.
- Firm Z determined that County Housing Authority meets the definition of an affiliate under paragraph .03a(1) of the interpretation.
- Firm Z determined that NFP Company meets the definition of an affiliate under paragraph .03a(3) of the interpretation.

Scenario 1: Included entity

Firm Z was asked by County Housing Authority, an affiliate under paragraph .03a(1) of the interpretation, to provide backup services for County Housing Authority’s data and records. Under the “Hosting Services” interpretation (ET sec. 1.295.143) of the “Independence Rule,” Firm Z concludes the services are prohibited hosting services. Firm Z evaluates whether the otherwise prohibited backup services would meet the requirements of the nonattest services exception. If Firm Z concludes that the backup services will not be subject to financial statement attest procedures and all other threats are at an acceptable level, then Firm Z could provide the backup services to County Housing Authority.

Scenario 2: Excluded entity

Firm Z was asked by NFP Company, an affiliate under paragraph .03a(3) of the interpretation, to perform financial information system design services for NFP Company. Under the “Information Systems Design, Implementation, or Integration” interpretation (ET sec. 1.295.145) of the “Independence Rule,” Firm Z concludes that financial information system design services are prohibited services. Firm Z evaluates whether the otherwise prohibited financial information system design services would meet the requirements of the nonattest services exception. If Firm Z concludes that the financial information system design services will not be subject to financial statement attest procedures and all other threats are at an acceptable level, then Firm Z could provide the design services to NFP Company.

Example affiliate determinations

The following examples illustrate affiliate determinations under the interpretation using the information that follows.

Firm A audits XYZ State. XYZ State has numerous funds and component units. Firm A is determining which entities meet the affiliate definition and, as such, require application of the “Independence Rule” and related interpretations. Firm A is evaluating the following entities to determine whether they are affiliates:

- Highway Fund, a fund included in XYZ State’s financial statements
- Public University, a discretely presented component unit included in XYZ State’s financial statements
- University Foundation, a blended component unit included in Public University’s financial statements
- Utility Fund, required to be included in XYZ State’s financial statements but excluded (GAAP departure)
- Investments of Public Pension Trust Fund, which are included in XYZ State’s financial statements
Affiliate under paragraph .03ai — Highway Fund

Highway Fund is included in XYZ State’s financial statements. Firm B audits Highway Fund. Firm A does not make reference to Firm B’s audit of Highway Fund.

Highway Fund is an affiliate of XYZ State as defined in paragraph .03ai of the interpretation because Firm A does not reference Firm B’s audit of the fund.

Firm A will apply the “Independence Rule” and related interpretations to Highway Fund.

In addition, Firm A

- is required to evaluate investments in investees, if any are held by Highway Fund, to determine if there are any investments in investees that are also affiliates as defined in paragraph .03aiv of the interpretation.
- may not use the nonattest services exception.

The same conclusion would be reached if Firm A audited Highway Fund.

Because Firm B’s financial statement attest client is Highway Fund, Firm B will determine the affiliates of Highway Fund by evaluating both of the following:

- Entities that the applicable financial reporting framework requires to be included in the financial statements of Highway Fund
- Investments held by Highway Fund and affiliates of Highway Fund, as defined in paragraph .03ai of the interpretation

Affiliate under paragraph .03a(ii) — Public University

Public University is included in XYZ State’s financial statements as a material discretely presented component unit. Firm C audits Public University. Firm A references Firm C’s audit report in Firm A’s audit report on XYZ State’s financial statements. XYZ State has more than minimal influence over Public University’s accounting and financial reporting process.

Public University is an affiliate of XYZ State as defined in paragraph .03aii of the interpretation because Public University is material to XYZ State’s financial statements as a whole and XYZ State has more than minimal influence over Public University’s accounting and financial reporting process.

Firm A will apply the “Independence Rule” and related interpretations to Public University.

In addition, Firm A

- is not required to evaluate investments in investees held by Public University for independence purposes.
- may use the nonattest services exception.

If Public University was not material to XYZ’s financial statements as a whole, then Public University would not be considered an affiliate of XYZ State as defined in paragraph .03ai of the interpretation. Similarly, if XYZ State did not have more than minimal influence over Public University’s accounting and financial reporting process, Public University would not be considered an affiliate of XYZ State.

Because Firm C’s financial statement attest client is Public University, Firm C will determine the affiliates of Public University by evaluating both of the following:
Entities that the applicable financial reporting framework requires to be included in the financial statements of Public University
Investments held by Public University and affiliates of Public University, as defined in paragraph .03ai of the interpretation

Exhibit D.1 provides a visual of the conclusion that Public University is an affiliate of XYZ State under paragraph .03aii of the interpretation.

Affiliate under paragraph .03aii — University Foundation

University Foundation is a blended component unit included in Public University’s financial statements. Public University is a discretely presented component of XYZ State. University Foundation is also included in XYZ State’s financial statements and is material to XYZ State. Firm C audits University Foundation. Firm A references Firm C’s audit report in the auditor’s report on XYZ State’s financial statements. XYZ State has more than minimal influence over University Foundation’s accounting and financial reporting process.

University Foundation is an affiliate of XYZ State as defined in paragraph .03aii of the interpretation because University Foundation is material to XYZ State’s financial statements as a whole and XYZ State has more than minimal influence over University Foundation’s accounting and financial reporting process.

Firm A will apply the “Independence Rule” and related interpretations to University Foundation.

In addition, Firm A

- is not required to evaluate investments in investees held by University Foundation for independence purposes.
- may use the nonattest services exception.

If University Foundation was not material to XYZ’s financial statements as a whole, then University Foundation would not be an affiliate of XYZ State as defined in paragraph .03aii of the interpretation. Similarly, if XYZ State did not have more than minimal influence over University Foundation’s accounting and financial reporting process, University Foundation would not be an affiliate of XYZ State.

Exhibit D.2 provides a visual of the conclusion that University Foundation is an affiliate of XYZ State under paragraph .03aii of the interpretation.
Affiliate under paragraph .03aiii — Utility Fund

Utility Fund is a discretely presented component unit of XYZ State under the applicable financial reporting framework and is material to XYZ State. Although XYZ State is required to include Utility Fund in its financial statements, XYZ State chooses to depart from GAAP and exclude Utility Fund from its financial statements because Utility Fund does not have current audited financial statements available. XYZ State has more than minimal influence over Utility Fund’s accounting and financial reporting process.

Utility Fund is an affiliate of XYZ State as defined in paragraph .03aiii of the interpretation because Utility Fund is material to XYZ State’s financial statements as a whole and XYZ State has more than minimal influence over Utility Fund’s accounting and financial reporting process.

Firm A will apply the “Independence Rule” and related interpretations to Utility Fund.

In addition, Firm A
• is not required to evaluate investments in investees held by Utility Fund for independence purposes.
• may use the nonattest services exception.

If Utility Fund was not material to XYZ’s financial statements as a whole, then Utility Fund would not be an affiliate of XYZ State as defined in paragraph .03aiii of the interpretation. Similarly, if XYZ State did not have more than minimal influence over Utility Fund’s accounting and financial reporting process, Utility Fund would not be an affiliate of XYZ State.

Exhibit D.3 provides a visual of the conclusion that Utility Fund is an affiliate of XYZ State under paragraph .03aiii of the interpretation.
Affiliate under paragraph .03aiv — Investments of Public Pension Trust Fund

XYZ State includes Public Pension Trust Fund, which is reported as a fiduciary fund, in its financial statements. Firm A determined that Public Pension Trust Fund is an affiliate of XYZ State as defined in paragraph .03ai of the interpretation. As a result, Firm A will need to evaluate Public Pension Trust Fund's investments to determine if there are any investees that are also affiliates as defined in paragraph .03aiv of the interpretation.

The following examples illustrate Firm A’s evaluation of two investments of Public Pension Trust Fund to determine if either investment would be an affiliate of XYZ State.

Investment in DEF Company

Public Pension Trust Fund is considered an investor as defined in the interpretation because Public Pension Trust Fund is an affiliate of XYZ State as defined in paragraph .03ai of the interpretation. Public Pension Trust Fund has a controlling interest in DEF Company, and the trust fund’s investment in DEF Company is more than trivial and clearly inconsequential to XYZ State’s financial statements as a whole.

DEF Company is an affiliate of XYZ State as defined in paragraph .03aiv(1) of the interpretation because Public Pension Trust Fund’s ownership interest in DEF Company gives it control over DEF Company, and Public Pension Trust Fund’s investment in DEF Company is more than trivial and clearly inconsequential to XYZ State’s financial statements as a whole.

Firm A will apply the “Independence Rule” and related interpretations to DEF Company.

If DEF Company has an investment in TUV Company, the member would not be required to evaluate the investment in TUV Company under the interpretation. The evaluation ceases with the original investment as indicated in paragraph .03c of the interpretation.

In addition, Firm A may not use the nonattest services exception.

If Public Pension Trust Fund’s investment in DEF Company was trivial and clearly inconsequential to XYZ State’s financial statements as a whole, DEF Company would not be an affiliate of XYZ State.
If, however, Public Pension Trust Fund’s investment in DEF Company was more than trivial and clearly inconsequential to XYZ State’s financial statements as a whole, but Public Pension Trust Fund did not have control over DEF Company, Firm A would need to evaluate whether DEF Company is an affiliate using the significant influence investment pathway. The significant influence investment pathway is demonstrated using the investment in RST Company.

Exhibit D.4.1 provides a visual of the conclusion that DEF Company is an affiliate of XYZ State under paragraph .03aiv(1) of the interpretation.

Exhibit D.4.1: par. .03aiv(1) example

**Investment in RST Company**

Public Pension Trust Fund is considered an investor as defined in the interpretation. Public Pension Trust Fund also has an interest in RST Company that gives the trust fund significant influence over RST Company. The investment in RST Company is material to XYZ State’s financial statements as a whole.

RST Company is an affiliate of XYZ State as defined in paragraph .03aiv(2) of the interpretation because Public Pension Trust Fund’s ownership interest in RST Company gives it significant influence over RST Company and Public Pension Trust Fund’s investment in RST Company is material to XYZ State’s financial statements as a whole.

Firm A will apply the “Independence Rule” and related interpretations to RST Company.

If RST Company has an investment in NOP Company, the member would not be required to evaluate the investment in NOP Company under the interpretation. The evaluation ceases with the original investment as indicated in paragraph .03c of the interpretation.

In addition, Firm A may not use the nonattest services exception.

If Public Pension Trust Fund’s investment in RST Company did not give Public Pension Trust Fund at least significant influence over RST Company, or if Public Pension Trust Fund’s investment in RST Company was not material to XYZ State’s financial statements as a whole, RST Company would not be an affiliate of XYZ State.

Exhibit D.4.2 provides a visual of the conclusion that RST Company is an affiliate of XYZ State under paragraph .03aiv(2) of the interpretation.
Step 2B*
Does the Public Pension Trust Fund have significant influence over RST Company?

Step 3B
Is the investment in RST Company material to XYZ State’s financial statements as a whole?

RST Company is an affiliate (par. .03a1v(2) of the interpretation).

*As discussed, Firm A considered step 1 in the control investment pathway (exhibit C.2) before proceeding to this step.
Agenda Item 3

Inducements Task Force

Task Force Members
Anna Dourdourekas (Chair), Tom Campbell, Sharon Jensen, Peggy Ullmann, and Jennifer Kary, AICPA Staff: Michele Craig and Ellen Goria

Task Force Objective
Consider the revisions made by the International Federation of Accountants’ (IFAC) International Ethics Standards Board for Accountants (IESBA) to the IESBA Code of Ethics for Professional Accountants (the IESBA Code) pertaining to the offering and accepting of inducements and recommend to the Committee appropriate actions for convergence purposes.

Reason for Agenda
To request the committee’s feedback regarding the nonauthoritative guidance drafted for convergence with IESBA’s Code.

Nonauthoritative guidance (Practice Aid)
During the May 2019 PEEC meeting, the committee agreed with the task force’s recommendation of a frequently asked questions (FAQ) approach to capture the differences identified under the AICPA and IESBA “Integrity and Objectivity Rule” that would be sufficient for AICPA’s convergence with IESBA.

- Address charitable contributions or donations and provide clarification that (political and charitable) contributions are acceptable if the intent is not to influence the procurement of professional services;
- Provide an example of a situation where an immediate family member or close relative receives or participates in gifts or entertainment and explain that when this gives rise to significant threats, the Conceptual Framework should be consulted;
- Describe other actions that may benefit an individual or attempt to improperly influence behavior;
- Provide an example of a situation where the additional factors included in the IESBA’s guidance (i.e., transparency, requirement, and previous behavior) could be helpful to consider when determining whether a gift would be considered reasonable in the circumstances; and
- Describe a gift that is clearly insignificant but with the intent to influence improper behavior.

After further discussion, the task force is recommending a practice aid be developed to serve as an educational tool that will assist members with situations not currently addressed in the Code (other inducements) using an overall threats and safeguard approach. In addition to FAQs, the practice aid will include the following:

- An overview of the gifts and entertainment guidance and an acknowledgement that situations may arise that would not fall into the category of gifts or entertainment and for these "other inducement" situations the conceptual framework should be used;
- An overview of the conceptual framework;
- A decision tree that would aid with evaluating other inducements;
• Best practices considerations to minimize threats or for additional safeguards;
• Frequently Asked Questions and Answers; and
• Case studies that present a scenario and assist members through an analysis with a conclusion.

**Action Needed**
The committee is asked to provide its feedback on the task force’s recommended approach.
The Professional Ethics Executive Committee (committee) held a duly called meeting on May 15, 2019 at the Sheraton Grand in Seattle, WA. The meeting convened at 9:00 a.m. and adjourned at 4:45 p.m. on May 15, 2019.

| Attendance: | William Darrol Mann  
| Samuel L. Burke, Chair | William McKeown  
| Coalter Baker | Steven Reed  
| A. Carlos Barrera | James Smolinski  
| Stanley Berman | Lisa Snyder  
| Chris Cahill | Stephanie Saunders  
| Tom Campbell | Shelly Van Dyne  
| Robert E. Denham | Sharon Jensen*  
| Anna Dourdourekas |  
| Kelly Hunter |  
| Martin Levin |  
| Brian S. Lynch |  
| | Not in attendance:  
| | Greg Guin  
| |  
| Staff: | John Wiley, Manager*  
| James Brackens, VP - Ethics & Practice Quality | Shannon Ziemba, Manager*  
| Toni Lee-Andrews, Director | Henry Grzes, Lead Manager – Tax Practice & Ethics*  
| Ellen Goria, Associate Director | Kristy Illuzzi, TIC Staff Liaison*  
| Jennifer Clayton, Senior Manager* | Laura Hyland, Governmental Auditing & Accounting*  
| Michele Craig, Lead Manager* | Pamela Lauchengco, Manager - Content Development & Management – MA*  
| Summer Young, Lead Manager* | Kelly Mullins, Manager – Support Services and Communications*  
| April Sherman, Manager* | Elaine Bagley, Specialist*  
| Liese Faircloth, Manager* | Sarah Shannonhouse, Manager - Tax Practice & Ethics*  
| Jennifer Kappler, Manager* |  
| Iryna Klepcha, Manager* |  
| Melissa Powell, Manager* |  
| Michael Schertzinger, Manager* |  
| |  
| Guests: | Paula Tookey, Deloitte*  
| Jeff Lewis, Chair, Independence/Behavioral Standards Subcommittee | Vassilios Karapanos, SEC*  
| Ian Benjamin, Chair, Technical Standards Subcommittee | Ivona Szady, Deloitte*  
| Kelly Hnatt, External Counsel | Joseph Tapajna, TPRC/Deloitte*  
| Catherine Allen, Audit Conduct* | James West, BDO*  
| Sonia Araujo, PwC | Jenny Norris, Indiana CPA Society*  
| Jason Evans, BDO | Pamela Ives Hill*  
| | Sarah Ference, CAN*  
| |  

1. **Welcome and introductions**
   Mr. Burke welcomed the committee and introductions were made.

2. **State and local government**
   Ms. Miller presented an overview of the interpretation and informed the committee that the comment letters received on the most recent exposure draft were generally supportive. Ms. Miller reviewed the revised interpretation with the committee and requested feedback. The committee made editorial changes to the interpretation including: 1) clarified that an investor could be either the financial statement attest client or an affiliate under item a.i. of paragraph .03 2) added language to further describe an investment that is considered temporary in paragraph .03 c.i. (The committee wanted to further describe what is meant by temporary in the interpretation and suggested that further guidance be included in the implementation guide), 3) clarified wording in paragraphs .03 c. ii. and iii such that for purposes of this interpretation, an investment held to principally enhance an investor's ability to provide governmental services would not be considered an investment, 4) clarified language in paragraph .06 to be consistent with similar language in the Code, 5) removed f. in paragraph .06 since it was not likely to occur as frequently as the last example, and 6) made a minor clarification to paragraph .11.

   Ms. Powell presented an overview of the draft implementation guide, and Ms. Kappler presented an overview of the draft checklist practice aid. One member of the committee questioned whether it was appropriate to adopt the interpretation at this meeting since the related practice aids were not finalized.

   A motion was made, seconded and passed with one abstention to adopt the interpretation as modified by the committee.

   Ms. Kappler presented the communication plan for the interpretation and requested feedback. The feedback was supportive of such a robust communication plan. Specific interest was shown in the train-the-trainer sessions and the opportunity for podcasts and/or webinars.

3. **Selected procedures engagements**
   Mr. Hunter presented the Frequently Asked Questions (FAQs) developed by the task force to the committee. The committee expressed that adding examples may help with the understanding. The committee noted that there may also be confusion related to who the responsible party is. The language of the FAQs will be updated to mirror the language in the final standard once it is voted out. The committee suggested deleting the fifth proposed FAQ and perhaps adding an additional FAQ related to practitioner involvement with design of the procedures if they are also involved with the underlying subject matter.
The committee agreed that the FAQs should be released at the same time as the final standard and that placement with the other General FAQs would be appropriate.

4. Information technology and cloud services
Ms. Van Dyne reviewed revisions made to the proposal since the last committee meeting. She explained that since the Strategy & Work Plan (SWP) is currently under development, the task force recommends the committee consider adding a statement to the introduction of the interpretation that makes it clear it is applicable to attest engagements on subject matter other than financial statements.

Ms. Van Dyne also described changes made to the “discrete exception’ (par. .05) in which a member may design or develop a template that performs a discrete calculation. The task force struggled with this “blanket” exception because it could be interpreted to mean that a member would be permitted to design a template that is significant to the client’s financial statements. To address this concern, Ms. Van Dyne explained the task force recommends that the sentence in par. .05 on discrete calculations be removed. The task force recommends revising par. .03(a) to exclude from the definition of “financial information system” ("FIS") a tool that meets three conditions: (i) the tool is noncomplex and discrete, (ii) the client is able to reperform the calculation (i.e., it’s not a “black box”, thus the client is able to take responsibility for it) and, (iii) the client evaluates and accepts responsibility for the assumptions and inputs. One member raised a concern about the noncomplex requirement and whether it's consistent with the general requirements in 1.295. Ms. Van Dyne explained that the intent is not that the client be able to reperform the calculation but be able to accept responsibility for the results of the calculation. To address the concern, the committee removed the term “noncomplex” and added other language to clarify its intent that the client be able to understand the calculation and the output.

Ms. Van Dyne further explained that the task force clarified in par. .22 that discrete means “individually separate, distinct and nonrecurring”. A concern about using the term “nonrecurring” was discussed, since technology consultants may need to return to an engagement to address a client issue. The committee agreed to replace “nonrecurring” with “not ongoing” since the concern it wanted to address was a member having continuous responsibility as opposed to the member repeatedly providing the service over a period of time.

Although one member noted that .22(b) apply virus solutions or updates, and (c) apply certain updates and patches, should be removed from the list of permissible services because those activities could be construed as the member having ongoing maintenance responsibility, the committee decided to keep the examples in since the lead in to the examples stipulated that in order to be permitted the services had to be “individually separate, distinct and not ongoing”.

A motion was made, seconded and unanimously passed to adopt the interpretation as modified by the committee with an effective date of January 1, 2021 with early implementation allowed.

The committee agreed that existing FAQs 1 through 6 and 8 of the Information Technology Services FAQs should be deleted from the FAQ document and that FAQ 7 should remain.
5. **Staff augmentation**
Ms. Hnatt updated the committee regarding conversations with AICPA internal counsel about potential issues with co-employment in staff augmentation engagements. Mr. Denham noted that employment laws vary from state to state in addition to federal vs. state. He also added that it will be important for individual firms to know the applicable laws in their respective jurisdictions. Ms. Snyder gave a synopsis of the comment letters received in response to the exposure draft of the interpretation, and the committee discussed many of the common reactions to the exposed version. Mr. Cahill noted that the comparable IESBA interpretation was not included in their respective non-attest services section as proposed by the task force, and the committee discussed the effects regarding convergence with IESBA. Ms. Snyder noted that she was comfortable with IESBA’s placement of their staff augmentation interpretation within their code, but also noted that if the interpretation was not implemented, she was comfortable with the AICPA code being more restrictive. Mr. Barrera expressed concern regarding the interpretation moving forward given questions regarding all the different jurisdictions. Mr. Baker noted that while NASBA was against the proposed interpretation as stated in their comment letter, they would poll their members at upcoming regional meetings to better obtain individual state’s positions. The committee concluded to table voting on the proposed interpretation until staff had an opportunity to dive deeper into the co-employment issue, and to allow NASBA to provide more feedback from its members. The task force agreed to meet again once the solicited feedback is obtained and report back to the committee in August.

6. **PEEC 2019 Strategy and Work Plan**
This agenda item was tabled due to time constraints.

7. **External directors**
Mr. McKeown explained that the task force is recommending that the project not proceed as the use of external directors is not a broad ethical issue since it is currently being used primarily by large firms. Rather, the task force believes that since firms have unique structures, members should use their judgement combined with the guidance in the code to determine how best to safeguard any threats created by external directors.

8. **IESBA update**
Ms. Goria reported that the materials for the June IESBA meeting were not available yet, but that a number of key projects would be discussed, including Nonassurance Services, Fees, Role and Mindset and Technology.

9. **Inducements**
Ms. Dourdourekas presented the agenda material to the committee, which included background information related to convergence with IESBA’s standards. Ms. Dourdourekas explained to the committee that staff performed a comparison of the IESBA’s standards on inducements to the AICPA’s code’s guidance related to gifts and entertainment as well as other non-authoritative guidance from both the AICPA and IESBA. Based on the comparison, the task force identified that the AICPA code’s independence guidance is more restrictive than the IESBA’s standards on independence and that no action is necessary to converge on this topic. The task force identified differences between the AICPA code and IESBA standards as it relates to the “Integrity and Objectivity Rule” in which the AICPA code appeared to be less
restrictive. The task force recommended to the committee that the AICPA is substantively converged with the IESBA’s Inducements guidance and that the identified differences could be addressed through frequently asked questions to be fully converged.

A committee member questioned if the gift and the amount of the gift would be addressed. Ms. Dourdourekas and Mr. Campbell (task force member) pointed out that this would be addressed in the FAQs (page 160 of the agenda lists the topics that will be included in the FAQs).

Ms. Snyder gave a little background as a former member of the IESBA’s Inducements Task Force that this topic was sparked due to the fraud and bribery act and pointed out that the “Integrity and Objectivity Rule” requires members to comply with laws and regulation and this should be included as part of the reason that the AICPA is substantively converged with IESBA. Ms. Snyder also suggested that the task force add an FAQ that would address a gift that is clearly insignificant but with the intent to influence improper behavior.

The committee agreed that the FAQ approach would be sufficient for IESBA convergence and agreed with the task force moving forward with the development of the FAQs as recommended.

10. Transfer of files and return of client records in sale, transfer, discontinuance, or acquisition of a practice

Ms. Sherman presented two versions of an FAQ that would address whether a member purchasing a practice from a nonmember is required to be satisfied that client consent was obtained before client records were transferred to the member. The committee agreed that the member should be satisfied that client consent was obtained. However, the committee requested that staff reword the FAQ’s question so that it focuses on paragraph .05 of the “Transfer of files and return of client records…” interpretation rather than paragraph .01. The committee agreed that staff did not have to bring the final revised FAQ back before the committee; review by Mr. Brackens and Ms. Lee-Andrews would be sufficient.

11. NOCLAR

Mr. Denham reported on task force activity since the February PEEC meeting. A joint task force consisting of an equal number of NASBA and AICPA members, while also being equally balanced between UAA membership and PEEC membership, has been formed in an effort to move forward in a collaborative manner. The purpose of this task force will be to develop a blueprint of the way forward with NOCLAR; specifically, to reach agreement on the major issues and determine where the issues should be addressed – the UAA or the Code of Conduct. The task force met via teleconference on April 23, 2019. Task force members were given a history of NOCLAR starting with the IESBA standard through the PEEC exposure draft and related comment letters received. Also discussed were the UAA Committee’s history and activities regarding NOCLAR, including highlights from the joint AICPA/UAA Committee meeting held in Nashville last fall. Next steps were discussed, and an in-person meeting will be held in Washington, DC on July 30-31st. Once an agreement is reached regarding the issues, the UAA Committee and PEEC NOCLAR Task Force will separately address language changes for their respective areas. Bob Denham (co-chair), Carlos Barrera, Stephanie Saunders, and Lisa Snyder represent PEEC on the joint task force.
12. **Statements on Standards for Tax Services (SSTS) Task Force**
Ms. Saunders updated the committee on the activities of the SSTS Revision Task Force. She noted that the Tax Executive Committee (TEC) approved formation of a task force at the request of the Tax Practice Responsibility Committee (TPRC) to undertake revision of the standards from August 2018. The task force has formed three separate subgroups:

- Review/Refresh of Existing Standards
- Data Security/Conflicts of Interest
- Other possible new standards including Quality Control, Reliance on Tools and Representation before the IRS

She noted that the task force is attempting to seek input from all AICPA members on these revisions and areas where standards need to be added or revised. She indicated that if anyone on the committee wants to provide information, she would be glad to bring back their feedback to the task force. She plans to give regular updates at PEEC meetings.

13. **Minutes of the February 2019 PEEC open meeting**
Ms. Lee-Andrews requested that the meeting convened date be updated from 2018 to 2019. It was moved, seconded and unanimously agreed to adopt the minutes from the February 2019 open meeting.