



Update on AICPA private equity and independence/ethics taskforce

The public interest principle. Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.

ET sec 0.300.030

PEEC approved charge

To determine whether the increase in private equity investments in public accounting firms creates a need to revise the code or issue nonauthoritative guidance.

- “Alternative Practice Structures” interpretation (ET sec [1.220.020](#))
- “Alternative Practice Structures” interpretation (ET sec [1.810.050](#))

The task force has determined revision to the code is necessary.

Nonauthoritative guidance will address unique situations created by a private equity environment.

Task force activities

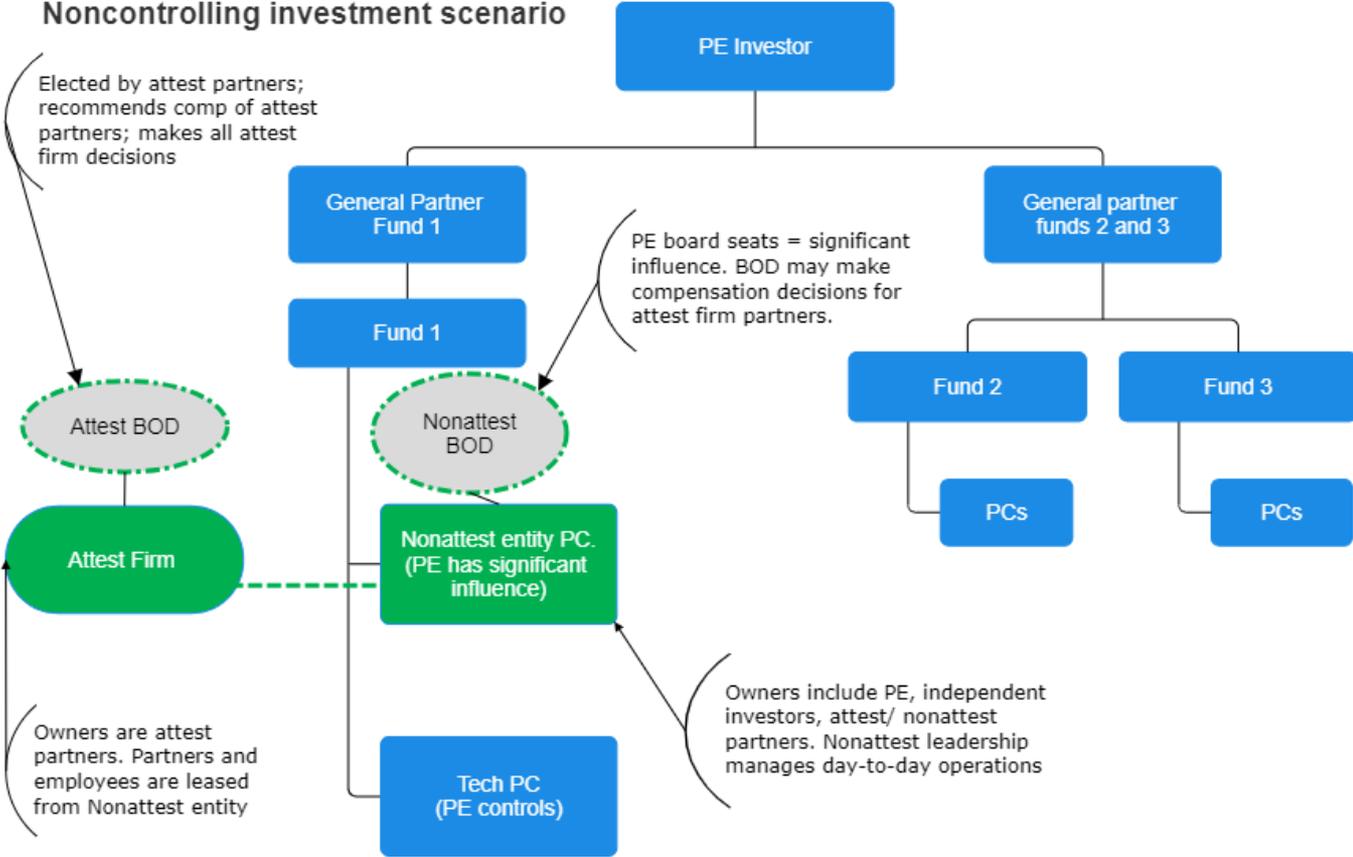
- Discussed ownership and governance
- Discussed SEC guidance
- Discussed state guidance
- Analyzed the current APS interpretation under the Independence Rule
- Developed key assumptions in noncontrolling and controlling investment scenarios
- Performed exercise and developed preliminary conclusions

Auditor Independence
and Ethical
Responsibilities:
Critical Points to
Consider When
Contemplating an
Audit Firm
Restructuring

OCA statement
August 29, 2022

*Paul Munter, Chief
Accountant*

Noncontrolling investment scenario



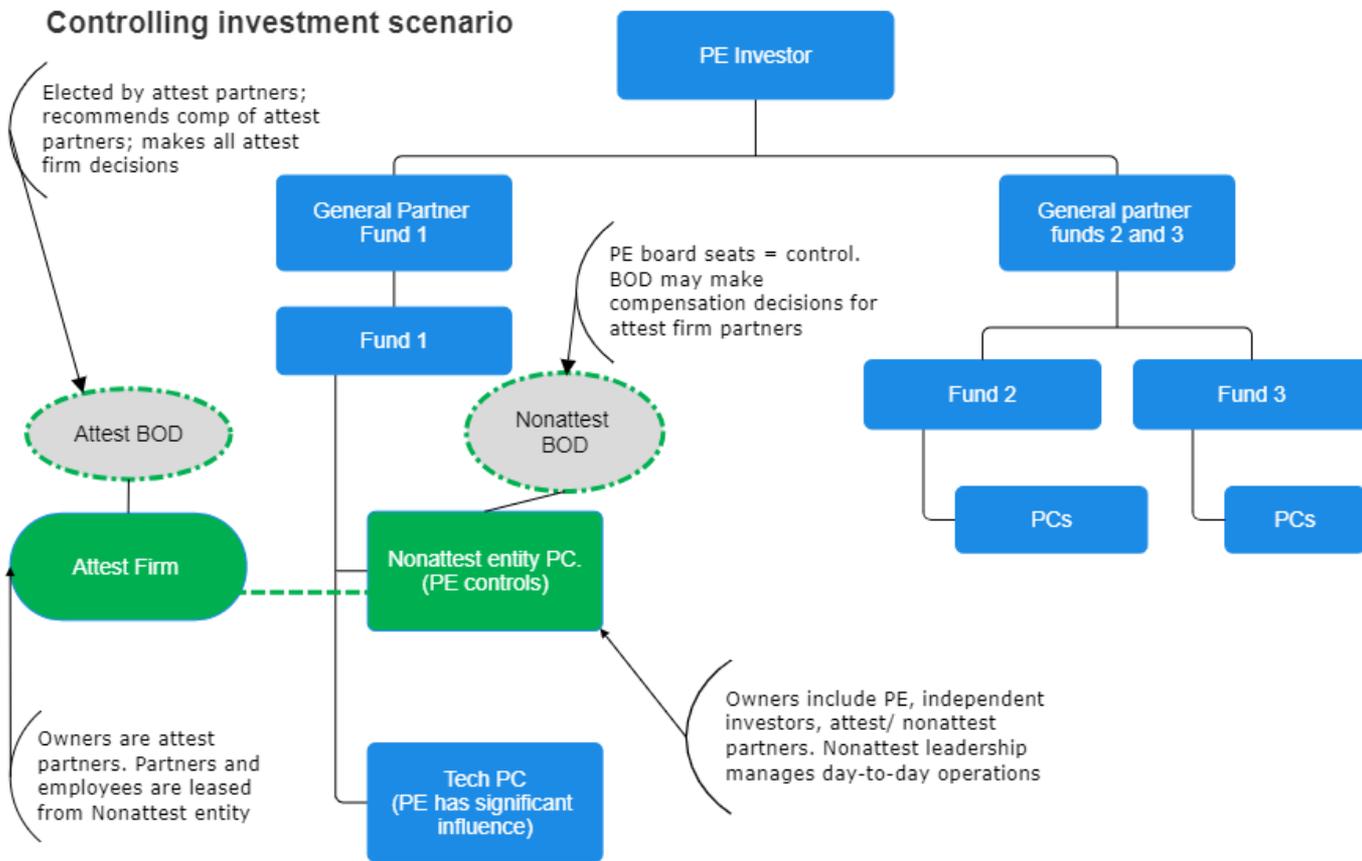
A PE firm has significant influence over the nonattest entity (significant influence is as defined in FASB ASC 323-10-15).

LEGEND

- Network firms
- Other entities within structure

Shared Services Agreement

Controlling investment scenario



A PE firm has a controlling interest in the nonattest entity (control is as used in FASB ASC 810).

LEGEND

Network firms

Other entities within structure

Shared Services Agreement

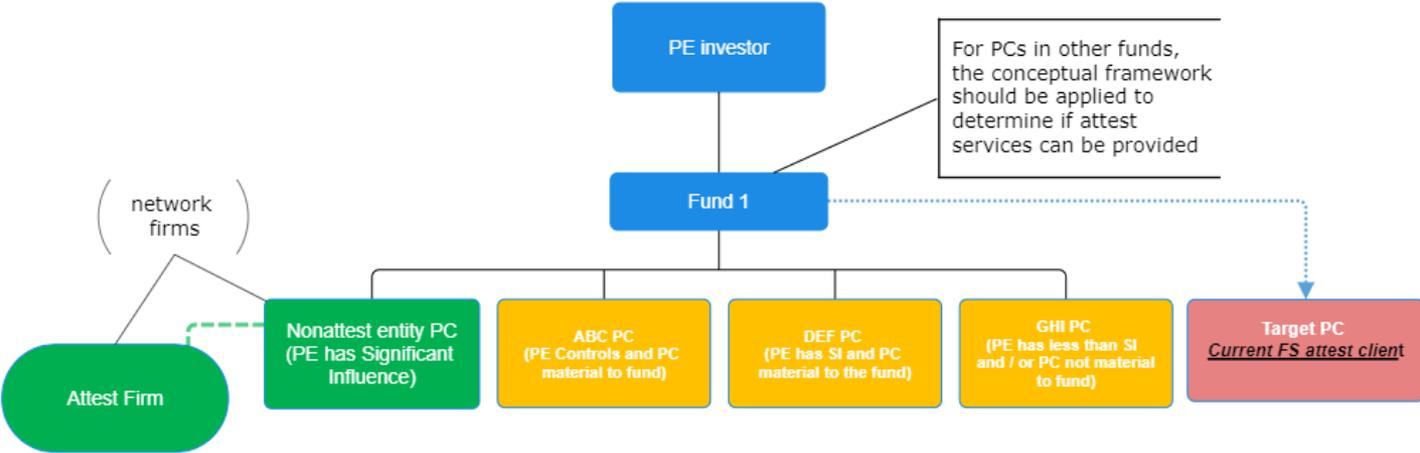
Relationships affecting independence in the noncontrolling investment scenario

Covered member evaluation	Not covered members but may create threats	Generally, do not create threats
Nonattest entity partners	Nonattest entity board members	General partners of different funds than nonattest entity*
Nonattest entity professional employees	General partner of fund of nonattest entity	Limited partners
Nonattest entity CEO	RIA, investment manager	Investees of independent investors
Nonattest entity senior leadership	PE firm controlling persons	Portfolio companies
Nonattest entity board members	Independent Investor(s)	
	Portfolio companies*	

* Indicates a difference in the controlling investment scenario

In practice, firms are monitoring quarterly for material relationships of individuals and entities such as general partners, independent investors, PE controlling persons and RIA

Providing attest services to portfolio companies within the structure in a noncontrolling investment scenario:

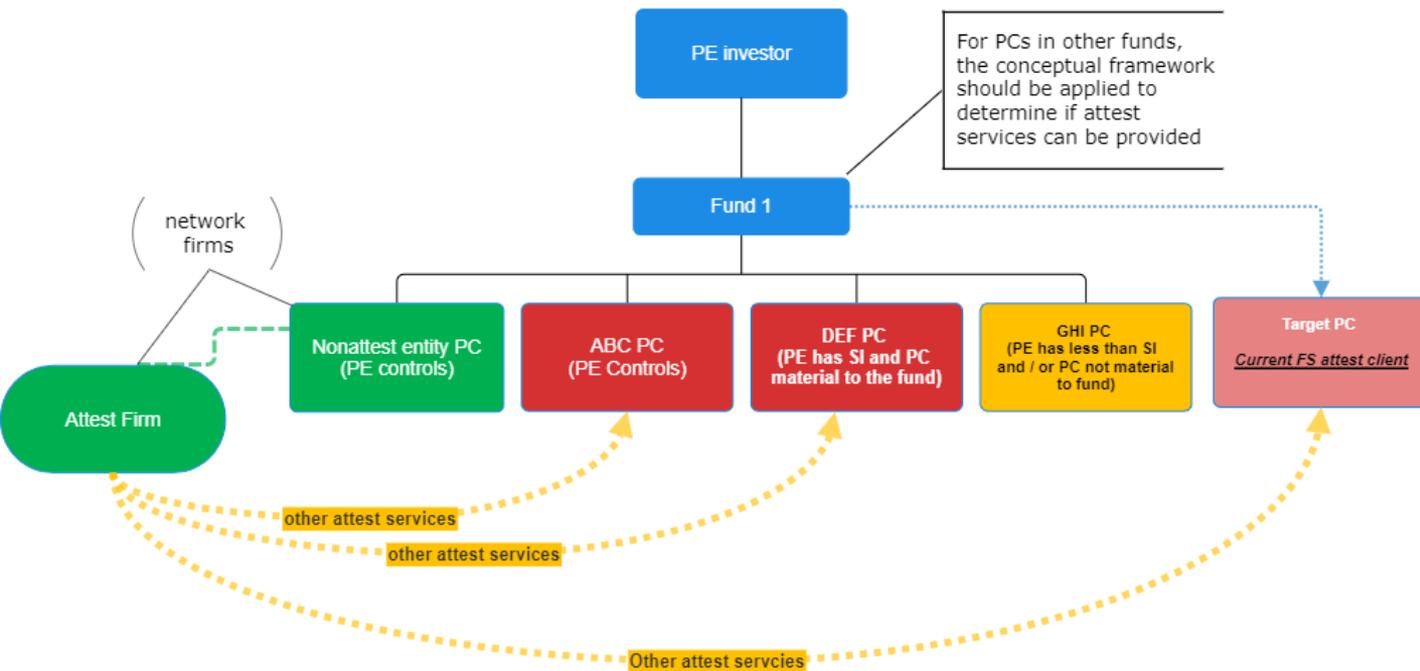


In a controlling investment scenario, can attest services be provided to portfolio companies?

LEGEND

- To determine if attest services can be provided, apply the Conceptual Framework for Independence.
- To determine if the attest firm can continue to provide financial statement attest services, the attest firm should refer to the acquisition guidance within the "Client Affiliates" interpretation.

Providing attest services to portfolio companies within the structure in a controlling investment scenario



LEGEND

No financial statement attest services should be provided.

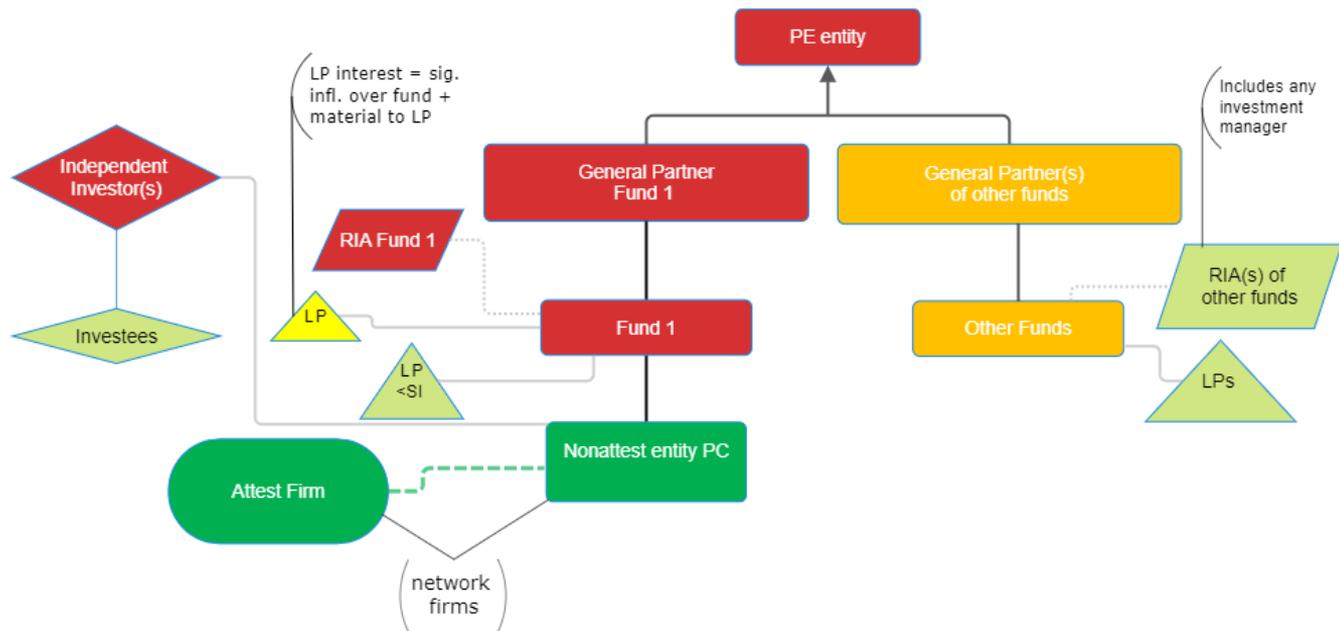
To determine if attest services can be provided, apply the Conceptual Framework for Independence.

To determine if the attest firm can continue to provide financial statement attest services, the attest firm should refer to the acquisition guidance within the "Client Affiliates" interpretation.

In a noncontrolling investment scenario, can attest services be provided to portfolio companies?

Providing attest services to entities within the structure for both controlling and controlling investment scenarios

*does not include evaluation of portfolio companies which differs depending on the PE firm's level of investment in the nonattest entity



Can attest services be provided to other entities within or associated with the PE structure?

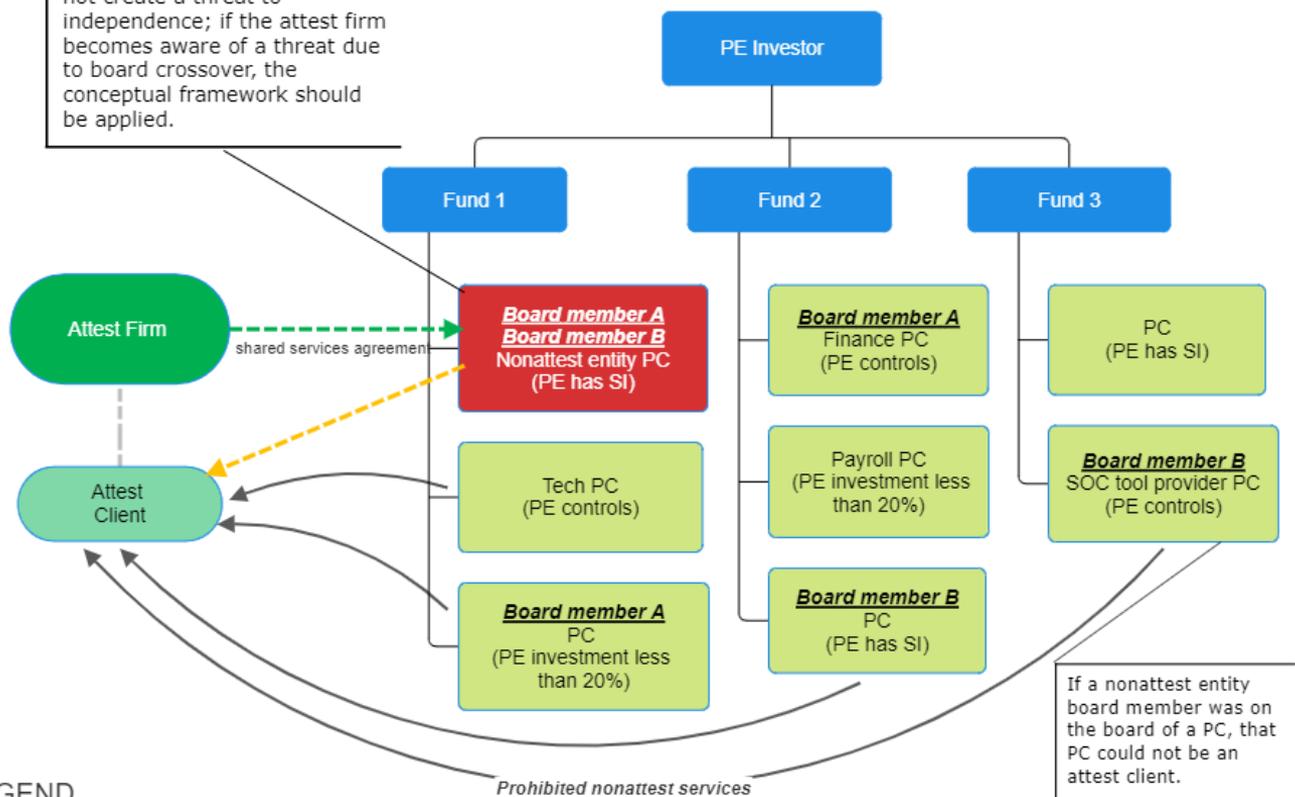
LEGEND

- No attest services should be provided
- No financial statement attest services should be provided
- To determine if attest services can be provided, apply the conceptual framework.
- Attest services can generally be provided; however if the attest firm becomes aware of a threat to independence, the conceptual framework should be applied.

- PE structure ————
- Other investors ————
- - - - Shared services agreement - - - -
- Associated with the fund

Portfolio Companies providing prohibited nonattest services to attest clients outside the PE structure (Noncontrolling and Controlling scenarios)

Board crossover generally does not create a threat to independence; if the attest firm becomes aware of a threat due to board crossover, the conceptual framework should be applied.



LEGEND

Prohibited nonattest services should not be provided to audit and review clients of the attest firm due to the network firm relationship with the attest firm.

Apply the conceptual framework to determine if prohibited nonattest services could be provided to other attest clients

11 Prohibited nonattest service may be provided to attest clients of the attest firm.



Can portfolio companies provide prohibited nonattest services to attest clients in both noncontrolling and controlling investment scenarios?

Global network example

Can a global network firm audit a controlled portfolio company in the same fund as the nonattest entity in a noncontrolling investment scenario?

- PE firm not part of the network
- Legal structures/ management/ governance separate between PC and nonattest entity
- Network firm is not party to the transaction
- Significant influence, not control over nonattest entity
- PE firm's investment in the portfolio company and materiality
- Independence based on global firm's jurisdiction
- Board crossover
- Partner crossover between the U.S. firm and the network firm
- Whether nonattest entity provides prohibited nonattest services to the portfolio company

Questions

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Together as the Association of International
Certified Professional Accountants

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